10/17/83 U 2635-1 a

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

Kent Student Center
Kent / Ohio 44242 / U.S.A.

Vol. 9, No.4, October 1, 1983

KEDI ECONOMIC SURVEY

OCTOBER 1983 ISSUE

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Publication No. 108300884
KEDI October 1, 1983

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This forecast uses the September, 1983, U.S. Department of Commerce third estimates of 1983:2 National Income and Product data, and the 1982 benchmark revision data. Also used is the September 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

KEDI has long held the view recently expressed by the Treasury Secretary that there is no cause-effect link between deficits and interest rates. There are adequate funds available to finance public and private needs without inflation being renewed or the recovery being halted. REAL GROWTH Developments show that growth continues. It is at a pace that can last longer than the over-heated rate of the second quarter. Modest gains in production, new orders, factory operating rate, and housing starts were somewhat balanced by declines in building permits, retail sales, steel production, and factory orders. PRICES The forecast is revised slightly in an upward direction for gains in the CPI in 1984 and 1985. Inflation is seen as being 3.3 percent this year, 4.7 percent in '84, and 4.8 in '85 as compared to the prior year. EMPLOYMENT The jobless rate is still seen as averaging 9.26 percent in the last quarter and edging down next year. HOUSING Starts were up in August but permits were down. The projection is not changed. The "big" gain foreseen for this year still leaves housing below more normal levels. AUTOS The forecast for production and sales is revised upward here: Sales 8.9 percent better than last year, but that is still below the peaks of the late 1970's. BUDGETS Good news here as recovery means increased receipts. Taxes should not be raised until the recovery is solid. INCOME Despite hurricane and strike, personal income edged ahead in August. Even with mild inflation and higher state and local taxes, there will be a bit more money for the average consumer to spend. MONEY AND CREDIT The forecast is maintained. It would be an error to ease credit too soon. INTEREST RATES, YIELDS, AND SECURITIES PRICES Generally high rates will remain with any downward moves being quite small. They will not cripple recovery. The stock market will perform well--especially in the last half of next year.

1.02 OVERVIEW

Treasury Secretary Donald Regan and chief presidential economist Martin S. Feldstein have very different views about the impact of the deficit on interest rates and recovery. KEDI lines up with Regan in this dispute.

Feldstein attributes the interest rate level to the unprecendented amount of the federal deficit. He sees more cuts in government spending and more tax revenues as the solution.

Regan commented that views such as Feldstein's are "the sour wisdom of some defunct or obsolescent economist." (Akron Beacon Journal, Sept. 15, 1983, p. All) The Treasury Secretary does not see a cause-effect link between deficits and interest rates. KEDI has expressed this view many times. Again, there is no direct link between interest rates and government red ink. Large deficits are not as bad as large tax increases. It seems that President Reagan also views high red-ink totals as more tolerable than more taxes.

To repeat, in the latter part of 1982, interest rates went down while the deficit went up. In the first half of the current year, the deficit went up and interest rates stabilized. During the second part of this year, red ink is seen here as moving down a bit while interest rates stabilize.

There is no "outcrowding" effect. Enough funds exist in the economy to meet the financing needs of the government and private business. (See page 2 of the May, 1983, issue.)

KEDI's forecast of growth slowing in the latter part of this year--a needed cooling--is being confirmed by developments outlined in the Real Growth section.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No. 3 has been updated.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; in 1986, to $32 per barrel; and in 1987, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1485.4	1529.6	1721.6	1790.5
Index of industrial production	1967=100	138.6	147.0	184.2	192.6
Capacity utilization	%	71.7	74.9	81.7	81.2
Unemployment rate	%	9.72	9.77	7.31	7.50
Private housing starts	mil.	1.061	1.599	1.708	1.573
Car sales	mil.	8.0	8.9	9.8	9.6
Implicit GNP price deflator	1972=100	206.9	216.0	249.7	263.1
Consumer price index	1967=100	288.6	298.3	344.6	366.7
Producer price index*	1967=100	280.6	286.5	344.3	366.7
Federal deficit	bil.$	-147.1	-175.4	-98.2	-82.4
Personal income	bil.$	2587.6	2751.6	3423.1	3678.4
Prime rate	%	14.86	10.63	11.38	11.14
Mortgage rate	%	15.57	13.12	12.74	12.56
Currency plus demand deposits	bil.$	473.5	508.7	603.4	619.5
Commercial and industrial loans	bil.$	393.2	402.6	438.3	460.4

* Finished goods

ASSUMPTIONS

in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In 1984-1985 stabilizing is expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are anticipated.

The October 1983 KEDI forecast is highlighted on page 3.

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The developments show that growth has slowed from the rapid pace of the second quarter. Such a move was needed to prevent the economy from overheating and renewing inflationary pressures. Moderate growth that has been forecast here for this year is maintained. The last quarter of 1984 as compared to the final quarter of this year is forecast as showing a 4.6 percent improvement by this Institute. That is fractionally higher than the 4 4 percent consensus forecast by Blue Chip Economic Indicators survey.

The mixed economic news showing the recovery is easing back to a pace that can be maintained for a longer period is outlined here.

1. The survey of buying agents reported a slowing of deliveries from suppliers for the seventh consecutive month. This indicates a larger backlog of orders. Production increases were reported by 44 percent of purchasing managers surveyed--up from 42 percent in July.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally
adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	1485.4	1490.1	1525.1	1544.3	1558.7	1529.6	2.9
Index of industrial product.	1967=100	138.6	138.5	144.4	150.9	154.3	147.0	6.1
Unemployment rate	%	9.7	10.3	10.1	9.4	9.2	9.8	.5
Capacity utilization rate	%	71.1	71.2	73.9	76.7	77.8	74.9	5.3
Private housing starts	mil. units	1.061	1.694	1.684	1.604	1.414	1.599	50.7
Car sales	mil. units	8.0	8.4	8.8	9.0	9.1	8.9	11.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	1529.6	1568.1	1585.6	1608.2	1634.3	1559.1	4.5
Index of industrial product.	1967=100	147.0	157.7	161.0	165.0	167.7	162.9	10.8
Unemployment rate	%	9.8	9.0	8.8	8.2	8.0	8.5	-12.7
Capacity utilization rate	%	74.9	78.9	80.6	81.4	81.5	80.6	7.6
Private housing starts	mil. units	1.599	1.465	1.827	1.849	1.603	1.686	5.4
Car sales	mil. units	8.9	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	1599.1	1638.8	1649.6	1667.3	1678.5	1658.6	3.7
Index of industrial product.	1967=100	162.9	170.1	171.8	173.9	174.1	172.5	5.9
Unemployment rate	%	8.5	7.9	7.9	7.8	7.9	7.9	-7.6
Capacity utilization rate	%	80.6	81.8	82.1	82.4	81.7	82.0	1.7
Private housing starts	mil. units	1.686	1.400	1.772	1.690	1.353	1.579	-6.3
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

REAL GROWTH

2. Industrial production went up to 150.5 percent of the 1967 average in August, seasonally adjusted. That was a gain of 0.9 percent. It had been gaining at a more rapid pace since February. The level of the August increase is quite adequate even if it was below the 2 percent increase of July and the 1.3 percent gain of May and June. It pointed to a needed slowing of growth.

3. Machine tool orders have followed a zig-zag path by jumping ahead 19 percent in July and dropping 22 percent in August from the July pace. Shipments were about the same in both months. That level was over 50 percent lower than it had been a year earlier.

4. New orders for durable goods rose modestly between July and August. The seasonally adjusted move up of 0.3 percent would have been 3.5 percent if defense orders had been excluded in both months. Orders had dropped between June and July following steady gains since February. August durable orders were 25 percent ahead of the recession low of last October.

5. Inventories also showed a modest rise in July after moving down in June. The July edging forward was reported at 0.2 percent from the adjusted level of the prior month. KEDI agrees that increases in inventories will be moderate in this and the next quarter.

6. Even though major retailers had strong gains in August, overall sales here were down to an adjusted rate that was 1.4 percent lower than in July. The July rate was 0.2 percent below the June pace. Both moves are seen as corrective here in terms of slowing the overall pace of growth to a more moderate and long-lasting one.

7. Steel production had been going up in the March through May period. It moved down some in both June and July. Raw steel production was at 6,921,274 tons in July. However, steel orders showed gains in late August.

8. Factory shipments had been moving ahead since late last year until July when they dropped slightly. The adjusted rate in July was at $173.11 billion.

9. Factory orders were off 1.7 percent in July to an adjusted annual rate of $175.49 billion. They had increased 5.1 percent in June.

1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Gross national product	bil.$	1485.4	1490.1	1525.1	1544.3	1558.7	1529.6	3.0
Personal cons. expenditures	bil.$	970.2	976.3	1010.6	1027.1	1031.6	1011.4	4.2
Gross private dom.investment	bil.$	194.5	196.7	210.2	216.4	225.7	212.3	9.2
Net exports	bil.$	29.4	24.6	12.3	7.3	6.2	12.6	57.1
Government. purchases:								
Federal	bil.$	116.4	117.9	117.6	118.2	118.9	118.2	1.5
State and local	bil.$	174.9	174.6	174.5	175.3	176.3	175.2	.2

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Gross national product	bil.$	1529.6	1568.1	1585.6	1608.2	1634.3	1599.1	4.5
Personal cons. expenditures	bil.$	1011.4	1043.9	1053.6	1067.1	1086.1	1062.7	5.0
Gross private dom.investment	bil.$	212.3	228.7	233.1	236.5	241.2	234.9	10.6
Net exports	bil.$	12.6	-1.0	-.3	3.2	3.5	1.4	-88.9
Government purchases:								
Federal	bil.$	118.2	120.1	121.9	122.9	124.1	122.3	3.5
State and local	bil.$	175.2	176.4	177.3	178.5	179.4	177.9	1.5

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Gross national product	bil.$	1599.1	1638.8	1649.6	1667.3	1678.5	1658.6	3.7
Personal cons. expenditures	bil.$	1062.7	1085.6	1091.2	1101.3	1108.1	1097.1	3.2
Gross private dom.investment	bil.$	234.9	245.3	246.7	249.6	251.3	248.2	5.7
Net exports	bil.$	1.4	2.1	3.3	3.5	4.1	3.3	-
Government purchases:								
Federal	bil.$	122.3	125.0	125.6	126.9	129.1	126.7	3.6
State and local	bil.$	177.9	180.8	182.8	184.0	185.9	183.4	3.1

*Historical data (1) % change over previous year

REAL GROWTH

10. The operating rate for factories went up in August to an adjusted 76.7 percent of capacity. The July rate was revised to 76.1 percent.

11. Although housing starts rose in August, the issuance of building permits fell. The reader is referred to Section 1.41 on housing.

In sum, the news has shown both ups and downs with none of the gains being excessive. The moderation anticipated for the third quarter by this Institute can be seen in the developments.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast here for the change in the CPI this year is maintained, but there are fractional increases in the projections for the next two years. The outlook for the PPI is increased by 0.2 percentage points for the change forecast for this year and next year whereas the adjustment in the annual change in the PPI between 1984 and 1985 shows a gain of just 0.1 percentage points over the September forecast.

KEDI Forecast of the Changes in the CPI &
PPI from One Year to the Next
(based on annual averages)

	Last Month	This Month
CPI		
1983/82	+3.2%	+3.3%
1984/83	+4.5%	+4.7%
1985/84	+4.6%	+4.8%
PPI		
1983/82	+2.0%	+2.2%
1984/83	+5.2%	+5.4%
1985/84	+6.5%	+6.6%

1.21 PRICES

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Consumer price index,n.s.a.	1967=100	288.6	293.1	296.2	300.5	303.4	298.3	3.3
Producer price index,n.s.a.**	1967=100	280.6	283.7	284.9	287.3	289.9	286.5	2.1
Price deflators:								
GNP	1972=100	206.9	212.8	214.5	217.2	219.5	216.0	4.4
Personal cons. expenditures	1972=100	205.3	209.0	212.4	214.3	216.2	213.0	3.8
Gross private dom.investment	1972=100	213.1	212.9	214.1	224.5	228.9	220.1	3.2
Federal purchases	1972=100	221.9	230.0	232.7	233.3	234.9	232.7	4.9

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Consumer price index,n.s.a.	1967=100	298.3	306.5	311.2	313.9	317.2	312.2	4.6
Producer price index,n.s.a.**	1967=100	286.5	295.3	298.6	304.2	309.8	302.0	5.4
Price deflators:								
GNP	1972=100	216.0	222.3	224.7	227.5	231.3	226.5	5.0
Personal cons. expenditures	1972=100	213.0	218.4	220.5	222.1	225.2	221.6	4.0
Gross private dom.investment	1972=100	220.1	231.3	233.6	235.6	241.4	235.5	7.0
Federal purchases	1972=100	232.7	236.8	240.5	244.1	248.4	242.5	4.2

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Consumer price index,n.s.a.	1967=100	312.2	320.4	324.2	328.4	334.8	327.4	4.8
Producer price index,n.s.a.**	1967=100	302.0	315.8	319.2	324.5	329.6	322.3	6.7
Price deflators:								
GNP	1972=100	226.5	234.3	237.2	239.8	241.1	238.1	5.1
Personal cons. expenditures	1972=100	221.6	227.8	231.0	234.9	236.8	232.6	5.0
Gross private dom.investment	1972=100	235.5	243.1	246.4	248.2	250.9	247.2	5.0
Federal purchases	1972=100	242.5	249.6	253.1	255.7	258.2	254.1	4.8

*Historical data (1) % change over previous year **Finished goods

PRICES

The reasons for the revision by KEDI are attributable to the drought and resulting upward pressures on agricultural prices and food prices and the larger-than-expected rise in capital equipment costs.

Soybean prices jumped ahead by 50 percent between mid-July and mid-September. Corn prices were up about 70 percent between last September and this September.

Consumer prices rose a seasonally adjusted 0.4 percent in August and in July. Between August of 1982 and August of this year, consumer prices were up a modest 2.6 percent. (The July and August gains equal a 4.8 percent annual rate before compounding.) Half of the change in August was attributed to an adjusted hike of 1 percent in transportation costs as gas and auto prices moved ahead in the index.

In August, the Producer Price Index moved ahead by a seasonally adjusted 0.4 percent. The July gain here had been a very modest 0.1 percent. Food prices and capital-equipment costs were the main factors in the forward move of this measure.

KEDI remains relatively optimistic as concerns inflation. Certainly, this Institute is not as gloomy as those pointing to the possibility of inflation of 8 percent in 1984. The Shadow Open Market Committee cites the possibility of 8 percent due to what they view as inconsistent monetary policies here and abroad and contractive trade and debt policies which they feel will lead to slow growth and more inflationary pressures.

The economists surveyed by Blue Chip Economic Indicators now show an average of a 5 percent inflation rate in 1984 over this year. James Solloway, an economist at a New York investment firm, projects inflation of 6-7 percent in 1984 and a rate of up to 9 percent in 1985. (The Wall Street Journal, Sept. 19, 1983, page 1.) Obviously, KEDI does not agree with these high forecasts.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

Forecast for nominal GNP and components for the rest of this year and for 1984-1985 remains essentially unchanged when compared with KEDI's last month's fore-

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Gross national product	bil.$	3073.0	3171.5	3272.0	3354.2	3421.3	3304.8	7.5
Personal cons. expenditures	bil.$	1991.9	2069.4	2147.0	2201.1	2230.3	2162.0	8.5
Gross private dom.investment	bil.$	414.5	404.1	450.1	485.8	516.6	464.2	12.0
Net exports	bil.$	17.4	20.5	-8.3	-28.3	-30.8	-11.8	-
Government. purchases:								
Federal	bil.$	258.7	273.5	273.7	275.8	279.3	275.6	6.5
State and local	bil.$	390.5	404.0	409.7	419.8	425.9	414.9	6.2

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product	bil.$	3304.8	3525.9	3562.8	3658.7	3780.1	3631.9	9.9
Personal cons. expenditures	bil.$	2162.0	2289.9	2323.2	2370.0	2445.9	2357.3	9.0
Gross private dom.investment	bil.$	464.2	529.0	544.5	556.0	582.3	553.0	19.1
Net exports	bil.$	-11.8	-9.2	-36.3	-14.3	-15.6	-19.0	-
Government purchases:								
Federal	bil.$	275.6	284.4	293.2	300.0	308.3	296.5	7.6
State and local	bil.$	414.9	431.8	438.2	447.0	459.2	444.1	7.0

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil.$	3631.9	3839.7	3912.9	3998.2	4046.9	3949.4	8.7
Personal cons. expenditures	bil.$	2357.3	2473.0	2520.7	2587.0	2624.0	2551.2	8.2
Gross private dom.investment	bil.$	553.0	574.7	607.9	619.5	630.5	608.2	10.0
Net exports	bil.$	-19.0	-11.0	-6.2	-1.6	-4.2	-3.7	-
Government purchases:								
Federal	bil.$	296.5	312.0	317.9	324.5	333.3	324.2	9.3
State and local	bil.$	444.1	464.7	470.9	478.2	485.7	474.9	6.9

*Historical data (1) % change over previous year

cast data. The 1984 and 1985 forecast data for GNP have been marginally increased due mainly to the upward revision of data for the Implicit Price Deflator for Personal Consumption Expenditures. Now, the 1984 increase in Personal Consumption Expenditure is seen as being 9.0 percent as compared with the September forecast of 8.9 percent. The 1984 gain in Nominal GNP is forecast now as being 9.9 percent as compared with the September projection of 9.6 percent. For 1985: This forecast shows 8.7 percent increase in GNP, and 8.2 percent increase in Personal Consumption Expenditures, compared with respective 8.6 and 7.7 percent increases in the September forecast. Both changes are due to the upward revision of forecast data for prices in 1985.

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 13)

As had been anticipated here, the August unemployment rate was the same as in July: 9.5 percent. The forecast is not changed. The fourth quarter rate is still seen as averaging 9.26 percent with the year ending at a rate of about 9.0 percent. The fourth quarter average for 1984 is projected at 8.04. The rate will edge down to 7.85 by the last part of 1985.

It is good news that the factory workweek got a little longer in August. The average workweek for manufacturing employees inched ahead to 40.3 hours from 40.2 hours in July. Also, the gain of 0.3 percent in total civilian employment to 101,563,000 shows continued recovery.

KEDI agrees with Lea Tyler of Chase Econometrics that unemployment will gradually lower for the rest of the year. There will not be any more dramatic drops such as the change from 10 percent in June to 9.5 percent in July.

In the last part of August and the first part of September, there were declines in the first-time claims for unemployment benefits. About 409,000 people out of work filed claims for the first time.

1.41 HOUSING
(Table 1.41 on page 15)

The forecast is not changed. Single-family housing starts are seen as gaining 53.3 percent to just about 1 million this year over 1982. Multi-family starts are projected as gaining 46.4 percent to .593 million. Together that equals a total of 1.6 million--certainly an improvement over last year but

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	110.5	111.1	112.4	113.8	112.0	1.6
Employment	mil.	99.5	99.1	100.0	101.9	103.3	101.1	1.6
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	96.1	95.7	96.6	98.5	99.9	97.7	.5
Unemployment rate	%	9.72	10.34	10.10	9.37	9.26	9.77	-5.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.5	234.5	235.1	236.0	236.9	235.7	1.4
Civilian labor force	mil.	112.0	113.1	114.2	115.1	116.2	114.7	2.4
Employment	mil.	101.1	102.9	104.1	105.7	106.9	104.9	3.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	97.7	99.5	100.7	102.3	103.5	101.5	3.9
Unemployment rate	%	9.77	9.02	8.84	8.21	8.04	8.53	-12.7

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	235.7	237.5	238.1	239.1	240.1	238.7	1.3
Civilian labor force	mil.	114.7	117.7	119.3	121.6	123.2	120.5	5.1
Employment	mil.	104.9	108.4	109.9	112.1	113.5	111.0	5.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	101.5	105.0	106.5	108.7	110.1	107.6	6.0
Unemployment rate	%	8.53	7.94	7.91	7.84	7.85	7.89	-7.6

*Historical data (1) % change over previous year

still below more normal levels.

It had been forecast here that the high rate of starts earlier this year could not be maintained. Even though starts were up 8.4 percent in August, there was a drop in building permits.

The August rate was a seasonally adjusted 1.935 million. That was the highest rate since December of 1978. KEDI agrees with those analysts that do not see such a rate as sustainable and project starts as being lower during the remainder of this year. Building permits issued were down 6.5 percent between July and August on an adjusted basis.

The view of Commerce Secretary Malcolm Baldrige that the drop in permits might be a signal that high mortgage rates are an obstacle to more gains in housing activity is seen as on the right track. This Institute has expressed the view before that the level of mortgage costs and of average house prices is keeping many out of the housing market. With average family income in the low $20,000 range and the cost of a new house four to five times that in most instances plus mortgage rates of 13.5-14.0 percent, thousands of families cannot afford their dream.

Construction spending went up 1.7 percent in July. However, further gains are expected to be smaller by KEDI and others. The June gain had been 4 percent.

Michael Sumichrast of the National Association of Home Builders indicated that the strength of the housing rebound earlier this year has been and will be phasing down. KEDI agrees.

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast of car sales is revised slightly in an upward direction. This is primarily due to the revision of domestic car production for the rest of this year and next year by leading manufacturers. Production plans were increased by 64 percent for the last quarter of this year to 1.98 million autos. In the first quarter of next year, Ward's Automotive Reports cites a jump of 44 percent in production plans which now total 2.16 million cars for that quarter.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Single-family housing starts	mil.	.656	1.079	1.099	1.001	.846	1.006	53.3
Multifamily housing starts	mil.	.405	.615	.585	.603	.568	.593	46.4
Mobile home shipments	mil.	.239	.281	.293	.284	.287	.286	19.8
Permits authorized	mil.	1.000	1.464	1.639	1.625	1.510	1.560	56.0
1-family unit** price, new	tho.$	84.0	87.1	91.4	93.4	94.6	91.6	9.1
1-family unit** price,existing	tho.$	80.3	80.5	82.1	83.4	85.0	82.8	3.1

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Single-family housing starts	mil.	1.006	.889	1.182	1.196	.981	1.062	5.6
Multifamily housing starts	mil.	.593	.576	.645	.653	.622	.624	5.2
Mobile home shipments	mil.	.286	.274	.289	.286	.280	.282	-1.4
Permits authorized	mil.	1.560	1.330	1.592	1.614	1.548	1.512	-2.5
1-family unit** price, new	mil.	91.6	96.8	98.4	99.7	103.8	99.7	8.8
1-family unit** price,existing	tho.$	82.8	85.7	88.3	91.2	94.5	90.0	8.6

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Single-family housing starts	mil.	1.062	.910	1.108	1.064	.826	.977	-8.0
Multifamily housing starts	mil.	.624	.590	.654	.626	.527	.602	-3.6
Mobile home shipments	mil.	.282	.260	.267	.235	.214	.244	-13.5
Permits authorized	mil.	1.521	1.382	1.129	1.014	1.058	1.146	-17.1
1-family unit** price, new	tho.$	99.7	105.6	107.2	109.1	110.3	108.1	8.4
1-family unit** price,existing	tho.$	90.0	96.2	98.1	99.0	100.1	98.4	9.3

*Historical data (1) % change over previous year **Not seas. adjusted

However, the totals are still below the averages reached in the 1977-79 years when annual production was more in the range of 8.5-9.2 million. For the current year, total U.S. production is seen as being in the 7 million range.

Domestic car sales were projected at 6.5 million in the last issue--a gain of 12 percent over 1982. That is revised by KEDI slightly upwards.

New car sales were up 20.9 percent in the first 10 days of September. Mid-September sales were up less-6 percent. In all, during the first 20 days of September, sales showed a gain of 12.2 percent over the prior depressed year.

1.50 BUDGETS

(Table 1.60 on page 19)

There is good news here. Federal spending has been running below earlier government estimates. Due to the recovery, revenues have been higher than Washington anticipated. The Treasury Department has found itself with piles of cash which it will use to temporarily reduce the amount it borrows and put a bit of it toward the national debt.

Gargantuan federal deficits forecast here for this and the next few years will not significantly affect capital formation in the private sector. The red ink will not stifle recovery. Deficit reduction should begin when the economy is solidly on the road to being in good shape and not before. That is not seen here as being the case until at least 1985. Any earlier reduction in debt would knock the gradual and slightly fragile recovery for a loop.

KEDI is fairly optimistic as concerns the federal deficit. As recovery progresses, it will go down mainly because of increases in receipts from corporate taxes and income taxes. Confirmation of that is seen already. Treasury official announced that the deficit projected for fiscal 1983 (ending September 30) will be about $10 billion less than they had expected earlier. Their estimate for the fiscal 1984 deficit is lowered to the $165-170 billion range from $179.7 calculated by the Office of Budget and Management.

KEDI calculates the deficit being reduced roughly $20 billion as an annual

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	9.0	9.1	8.9	11.1
Domestic	mil.	5.8	6.0	6.6	6.8	6.9	6.6	13.7
Imported	mil.	2.2	2.4	2.2	2.2	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.2	1.1	1.3	1.2	-26.8
Factory shipments	mil.	5.0	6.0	6.7	6.7	6.9	6.6	32.0
Light-duty truck sales	mil.	2.1	1.9	2.4	2.3	2.2	2.2	4.8

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.9	9.1	9.0	9.4	9.5	9.2	4.5
Domestic	mil.	6.6	6.6	6.8	6.9	7.1	6.9	5.4
Imported	mil.	2.3	2.5	2.2	2.5	2.4	2.3	.0
Dealers inventories**	mil.	1.2	1.4	1.3	1.3	1.4	1.4	16.7
Factory shipments**	mil.	6.6	6.7	6.8	6.8	7.2	6.9	4.5
Light-duty truck sales	mil.	2.2	2.0	2.3	2.2	2.1	2.2	.0

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	9.2	9.3	9.5	9.3	9.7	9.5	3.3
Domestic	mil.	6.9	7.0	7.2	7.2	7.3	7.3	2.8
Imported	mil.	2.3	2.3	2.3	2.1	2.4	2.2	4.8
Dealers inventories**	mil.	1.4	1.5	1.4	1.5	1.6	1.5	7.1
Factory shipments**	mil.	6.9	7.1	7.0	7.3	7.5	7.2	7.2
Light-duty truck sales	mil.	2.2	2.0	2.3	2.0	1.9	2.1	5.3

*Historical data (1) % change over previous year **Seas. not adjusted average between 1983 and 1984. Between 1984 and 1985, the reduction forecast is at about twice that level: $40 billion or about 26 percent less.

1.60 INCOME

(Table 1.60 on page 21)

Despite the telephone workers strike that limited wage gains and the hurricane in Texas that cut rental income in official government measures, personal income managed to show some modicum of improvement. August personal income was up 0.2 percent. Sure, that was the worst showing since February, but the above factors put a crimp in the figures. KEDI sees the gain as positive and adequate. The trend here is a good one. The Commerce Department reported that the advance would have been about 0.5 percent if it had not been for the strike, hurricane, and special payments to postal workers.

Another piece of good news comes from the profit area. After-tax profits of manufacturers went up to an average of 4.2 percent of sales in the second quarter, whereas they were 3.2 percent of sales in the first quarter.

Labor costs are going up slowly. This is not an area to be frightened of this year. For that matter, such costs are not seen as rising unreasonably in the near future.

The KEDI forecast of personal income is in Table 1.60 As can be seen there, personal income is projected as rising 6.6 percent this year over the prior year. The gain in 1984 is seen as being 9.7 percent. (Neither is adjusted for inflation.)

It must be remembered that increased state and local taxes will cut purchasing and savings power as less income will be left in pockets and purses. Still, real gains will be there but in small measure.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

The forecast here remains the same. Tightening of money and credit reins long anticipated here became reality. The Federal Reserve has little maneuvering room.

In 1984, some easing is expected by KEDI toward the middle of the year. It

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Federal govt.:								
Income taxes	bil.$	304.7	297.7	304.2	292.1	308.9	300.8	-1.3
Corporate prof. tax accruals	bil.$	46.5	48.6	59.8	64.8	69.1	60.6	30.3
Surplus/deficit	bil.$	-147.1	-183.3	-166.1	-180.2	-172.0	-175.4	19.2
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.4	110.6	113.8	109.2	12.1
Corporate prof. tax accruals	bil.$	12.7	12.9	16.2	17.4	18.3	16.2	27.6
Surplus/deficit	bil.$	31.3	40.4	41.0	43.5	44.8	42.4	35.5

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Federal govt.:								
Income taxes	bil.$	300.8	312.7	322.1	329.5	340.7	326.3	8.5
Corporate prof. tax accruals	bil.$	60.6	70.2	71.3	73.4	75.9	72.7	20.6
Surplus/deficit	bil.$	-175.4	-164.2	-158.7	-150.4	-138.2	-152.9	-12.8
State and local governments:								
Income taxes	bil.$	109.2	116.2	118.9	121.9	124.2	120.3	10.2
Corporate prof. tax accruals	bil.$	16.2	18.9	19.7	21.6	22.9	20.8	28.2
Surplus/deficit	bil.$	42.4	45.9	47.8	50.2	51.3	48.8	15.1

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Federal govt.:								
Income taxes	bil.$	326.3	346.7	354.1	362.1	369.6	358.1	9.8
Corporate prof. tax accruals	bil.$	72.7	78.1	80.1	82.6	83.7	81.2	11.7
Surplus/deficit	bil.$	-152.9	-120.8	-118.1	-110.3	-97.8	-111.3	-26.9
State and local governments:								
Income taxes	bil.$	120.3	126.1	128.2	132.4	137.1	131.0	8.8
Corporate prof. tax accruals	bil.$	20.8	23.1	23.4	23.7	24.0	23.6	13.2
Surplus/deficit	bil.$	48.8	52.6	53.7	54.5	55.8	54.2	11.0

*Historical data (1) % change over previous year

is only very recently that other economists have begun to forecast what has been maintained here for many months.

Others are now saying that the Fed will ease credit policy shortly. Statements refer to fears that the recovery will be hampered unless credit is eased soon. Buying plans for homes and cars are said to need bolstering by lower interest rates.

It is the position here that IT WOULD BE A MISTAKE TO EASE THE POLICY BECAUSE THE ECONOMY IS PERFORMING ADEQUATELY AT THE PRESENT, AND, SECONDLY, M1, M2, AND M3 ARE ABOVE ORIGINAL TARGETS SET BY THE FED.

This May, the Federal Reserve maintained the 1982 targets, but moved the time period for which they had been set ahead by half a year. Consequently, they actually had increased the targets.

KEDI agrees with the view that the economy has done pretty well despite high interest rates. Any easing now would increase the chance of having to tighten next year. (Perish the thought as it's an election year.) It is felt that there will not be any changes--the Fed will keep to current policies. No significant changes are expected by KEDI at the October 4, 1983, meeting of the Open Market Committee.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 24)

The forecast is not changed. In general, interest rates will stabilize in the first part of next year and move down a bit in the latter part of 1984. Any movements during the rest of this year will be quite small.

KEDI maintains its assumption that the Fed will not ease SIGNIFICANTLY credit conditions by letting interest rates drop. A generally tight policy is seen.

Data show the recovery is NOT losing steam. The expansion is healthy. It is robust in the current quarter. A "flash" report by the Commerce Department showed GNP growing at an adjusted annual rate of 7 percent in the third quarter. That is a strong performance.

The chief economist at San Francisco's Bank of America, John Wilson, pointed to the Fed tight policy continuing. Albert Sommers of the Conference Board

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Personal income	bil.$	2578.6	2657.7	2713.6	2787.5	2847.5	2751.6	6.7
Personal disposable income	bil.$	2176.5	2255.9	2301.0	2384.7	2424.8	2341.6	7.6
Compensation of employees	bil.$	1865.7	1923.7	1968.7	1993.9	2054.1	1985.1	6.4
Corporate after tax profits	bil.$	115.1	108.2	127.2	136.1	147.3	129.7	12.7
Personal saving	bil.$	125.4	121.7	91.5	120.5	130.7	116.1	-6.4
Average weekly earnings	$	330.1	342.3	351.1	354.2	360.1	351.9	6.6

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Personal income	bil.$	2751.6	2915.1	2926.4	2938.9	3032.1	2953.1	8.3
Personal disposable income	bil.$	2341.6	2486.2	2530.3	2587.5	2567.2	2542.8	8.6
Compensation of employees	bil.$	1985.1	2103.6	2136.5	2180.2	2241.3	2165.4	9.1
Corporate after tax profits	bil.$	129.4	154.6	157.6	162.0	164.3	159.6	23.3
Personal saving	bil.$	116.1	132.1	142.0	151.2	154.1	144.9	24.8
Average weekly earnings	$	351.9	366.5	372.8	379.9	385.4	376.2	6.9

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Personal income	bil.$	2953.1	3053.7	3184.5	3243.8	3320.3	3200.6	8.3
Personal disposable income	bil.$	2542.8	2581.5	2702.2	2749.3	2813.6	2711.7	7.6
Compensation of employees	bil.$	2165.4	2272.5	2305.7	2341.5	2362.4	2320.5	7.2
Corporate after tax profits	bil.$	159.6	172.1	174.3	175.2	176.1	174.4	9.3
Personal saving	bil.$	144.9	156.2	159.7	158.3	154.2	157.1	8.4
Average weekly earnings	$	376.2	388.1	391.4	397.2	405.8	395.6	5.1

*Historical data (1) % change over previous year

INTEREST RATES, YIELDS, AND SECURITIES PRICES

cited the strength of the recovery as the reason interest rates will remain high. KEDI agrees with both of these outlooks.

KEDI does not share any view that sees the recovery as losing steam. Such an attitude was expressed by Edward Hyman of Cyrus J. Lawrence, Inc., a securities firm.

If there is any drop in interest rates, the change will be marginal. KEDI does not expect much of a change.

The forecast for the stock market looks to some small declines latter this year and in the first part of next year with an upward trend returning in the second part of 1984.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Implicit GNP Price Deflators for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.5, May 1983 (U.S. Department of Commerce, Washington, D.C., monthly.)Forecast data are in Business Forecasts 1982 (Federal Reserve Bank of Richmond,Richmond, Virginia, February 1982.)

The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Implicit GNP Price Deflator,1972=100.)

Actual Figure: 207.2

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts	% of Accuracy
U.S. Trust Company	12/81	209.4	9	+1.1
Georgia State	11/81	209.2	15	+1.0
Peter L. Bernstein, Inc.	11/1/81	207.0	16	-.1
Harris Trust and Savings Bank	11/11/81	207.2	16	.0
Chemical Bank	11/19/81	208.1	18	+.4
ASA and NBER	12/81	208.8	19	+.8
Metropolitan Life Insurance Co.	12/1/81	209.0	21	+.9
Paul C. Harmon, ARMCO	12/4/81	208.8	22	+.8
Manufacturers Hanover Trust	12/11/81	208.7	25	+.7
Fidelity Bank	12/18/81	206.4	26	-.1
Cities Service Company	12/31/81	209.1	27	+.9
KEDI	1/1/81	206.6	28	-.1
Morgan Guaranty Trust Company	1/7/82	207.3	30	.0

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	473.5	490.3	505.2	515.4	523.8	508.7	7.4
Time deposits, adjusted, M2	bil.$	1918.2	2042.6	2095.1	2169.2	2203.4	2127.8	10.9
Consumer instal. credit	bil.$	343.4	342.6	353.0	360.7	369.3	369.3	7.5
Commerc.& indus. loans at banks	bil.$	392.2	397.8	395.9	398.2	402.6	402.6	2.4
Large denomination time dep.	bil.$	319.6	301.6	301.3	303.4	305.9	303.1	-5.2
Mortgages at S & L Assns.	bil.$	482.2	475.7	471.6	479.2	487.6	487.6	1.1

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	508.7	527.2	533.4	545.8	553.4	540.0	6.2
Time deposits, adjusted, M2	bil.$	2127.8	2238.7	2291.1	2332.2	2406.8	2317.2	8.9
Consumer instal. credit	bil.$	369.3	372.6	378.7	385.6	395.4	395.4	7.1
Commerc.& indus. loans at banks	bil.$	402.6	405.3	409.1	412.8	417.1	417.1	3.6
Large denomination time dep.	bil.$	303.1	307.4	311.2	313.4	317.2	312.3	3.0
Mortgages at S & L Assns.	bil.$	487.6	491.2	498.6	502.4	507.3	507.3	4.0

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	540.0	560.9	568.3	576.3	582.6	572.0	6.0
Time deposits, adjusted, M2	bil.$	2317.2	2450.2	2521.4	2618.3	2708.7	2574.7	11.1
Consumer instal. credit	bil.$	395.4	400.9	404.8	410.6	416.8	416.8	5.4
Commerc.& indus. loans at banks	bil.$	417.1	419.2	423.3	426.8	431.5	431.5	3.5
Large denomination time dep.	bil $	312.3	320.8	325.5	329.1	334.3	327.4	4.8
Mortgages at S & L Assns.	bil.$	507.3	512.8	518.6	526.2	531.4	531.4	4.8

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	10.20	8.07	8.40	9.18	9.24	8.72	-14.5
Prime rate	%	14.86	10.82	10.50	10.52	10.67	10.63	-18.5
Conventional mortgages rate	%	15.57	13.26	13.16	13.10	12.98	13.12	-15.7
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.36	12.42	12.01	-12.8
20 years Govt. bonds yield	%	12.70	10.87	10.81	11.51	11.32	11.13	-12.4
Standard & Poor's 500 avg.	1941-43=100	119.75	147.94	162.73	160.27	158.91	157.46	31.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.72	9.18	9.16	9.01	8.89	9.06	3.9
Prime rate	%	10.63	10.58	10.49	10.04	10.02	10.28	-3.4
Conventional mortgages rate	%	13.12	12.85	12.79	12.58	12.36	12.65	-3.6
Aaa corporate bonds rate	%	12.01	12.47	12.59	12.36	12.18	12.40	3.2
20 years Govt. bonds yield	%	11.13	11.67	11.85	11.81	11.64	11.74	5.5
Standard & Poor's 500 avg.	1941-43=100	157.46	157.32	159.26	163.14	165.27	161.25	2.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	9.06	8.78	8.82	8.89	8.93	8.86	-1.2
Prime rate	%	10.28	10.00	10.21	10.26	10.32	10.20	-.8
Conventional mortgages rate	%	12.65	12.31	11.97	11.91	11.96	12.04	-4.8
Aaa corporate bonds rate	%	12.40	12.06	12.34	12.56	12.61	12.40	.0
20 years Govt. bonds yield	%	11.74	11.92	12.03	12.05	12.14	12.04	2.5
Standard & Poor's 500 avg.	1941-43=100	161.25	167.51	160.24	161.14	158.72	161.90	.4

*Historical data (1) % change over previous year

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product	SCB, Table 1.2
	Personal consumpt. expend.	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Government purchases of goods and services:	
	Federal	SCB, Table 1.2
	State and local	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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LOUISIANA BUSINESS REVIEW

Louisiana State University,
Baton Rouge

WASHINGTON

Taxes – Paying for a civilized society

LETTER FROM THE EDITORIAL BOARD

Oliver Wendell Holmes said that "taxes are what we pay for a civilized society." According to the proponents of the various tax reduction and tax limitations referenda, the citizens of the United States have been blessed with more civilization than is necessary or desirable. In 1980, federal government tax revenues took approximately 25% of total personal income, up slightly from 24% in 1960 and 22% in 1950. The most important source of tax revenue is the individual income tax which accounts for approximately 55% of total federal revenues. Employment related taxes account for 25% of federal revenue; the corporate income tax constitutes 14%, excise taxes 4.7%, and estate and gift taxes comprise 1.3%.

Louisianians can take some solace when paying their federal taxes. According to federal data, the per capita tax payments made by Louisianians in 1980 total $1,733, whereas, the per capita expenditures made by the federal government in Louisiana total $1,866. If these data are correct, they indicate that for each dollar paid in federal tax revenues, Louisianians receive $1.08 from the federal government.

In addition to the federal government, state and local governments also collect considerable tax revenues from their citizens. Total local and state government tax receipts, excluding federal grants, constitute 14% of total personal income. Between 1960 and 1980, federal tax revenue increased by 460%, but state and local government tax revenues increased by 580%.

Total revenue for state and local governments in Louisiana totaled $7,055 million in 1980; property taxes accounted for only 7% of this revenue, other taxes accounted for 43%, charges and miscellaneous receipts comprised 26% and grants from the federal government accounted for 24%.

Considerable attention has recently been directed at the income taxes paid by high income individuals. During 1980, taxpayers with incomes above $100,000 paid 15% of all federal individual income taxes. If those earning above $100,000 per year were to pay a tax rate of 100% of this adjusted gross income without any deductions or exemptions permitted, the total government revenue would increase by $85 billion, or only 16% of total government revenue. Tax rate increases, or decreases, in the top income bracket have relatively little impact on total revenues.

Taxes have many purposes; most importantly, they are used to obtain revenues to finance public expenditures. Taxes have other purposes, however. They are raised and lowered in order to manage, or at least attempt to manage, the national economy; taxes are used to discourage consumption of certain commodities such as alcohol or tobacco; and to increase consumption of certain goods such as home ownership which is encouraged by the interest deduction. Tax policies also are used to encourage or discourage imports and exports and to redistribute income. More recently, the "supply side" advocates have proposed that tax reductions can be utilized to provide additional individual and business incentives to reindustrialize the American economy.

Tax policies have many objectives which often conflict with each other. One example is that taxes designed to meet certain equity goals conflict with the objective of fostering economic growth. Some equity concepts require relatively high marginal tax rates on high income individuals but these high tax rates discourage economic incentives and growth. The American tax system is a collage of various tax structures, rates, deductions, exemptions, deferrals and technicalities. The system is complex because individuals, working through pressure groups, want the tax system to achieve certain equity, and personal and social goals.

This issue of the *Louisiana Business Review* contains four articles on selected topics related to taxation. The first two articles inform the reader about the recent federal tax law changes and the numerous ways in which taxpayers can take advantage of changes in the tax laws. The other two articles analyze the projected revenue and expenditure patterns for the next five years and the impact of Federal tax law changes on Louisiana's AFDC receipts.

"Tax Planning and Recent Changes in the Tax Laws," was written by Joseph H. Martini, partner-in-charge of the New Orleans office of a major accounting firm. Mr. Martini presents a thorough summary of recent changes in tax rates and regulations resulting from the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982. The article not only summarizes these tax changes, but it provides a very useful analysis of the impact of these tax changes on individual tax planning.

Although the media have discussed the tax rate deductions, many of the other changes have not been highlighted. In time, the most significant tax law change is most likely to be the indexing of tax brackets and personal exemptions to the Consumer Price Index after 1984. This will prevent "bracket-creep" which resulted from a combination of the progressive income tax and inflation. "Bracket-creep" caused an ever-increasing proportion of workers' income to be paid in income taxes. However, this change will significantly reduce the income elasticity of the individual income tax and could produce budgetary problems in the years ahead.

The article by Hoffman and White, "The Impact of Recent Tax Legislation on Investment in Realty Property," examines how the two recent tax laws have affected the tax treatment of investments in realty property. The authors point out that the tax benefits of investing in both residential and non-residential property have increased significantly, and that investments in rehabilitation

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FALL/WINTER 1982

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Vol. 46 no. 4

Publisher:
Louisiana State University
College of Business Administration
Division of Research
Baton Rouge, LA 70803

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The Editorial Board invites the submission of manuscripts to be considered for publication in this quarterly. Style sheets for manuscripts and manuscript abstracts are available upon request. Comments and suggestions on any material appearing in the *LBR* are also welcome.

All communications and address changes should be sent to the editor, Louisiana Business Review, Division of Research, College of Business Administration Louisiana State University, Baton Rouge, LA, (504) 388-6645.

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LOUISIANA BULLETIN

Southern Immigration on the Rise

The almost-traditional South-to-North migration pattern in the United States workforce took an important turnaround in the 1970s, with the region attracting a burgeoning number of people from other parts of the country and more southerners staying home, according to **William J. Kahley** in the Federal Reserve Bank of Atlanta's *Economic Review*. While the South lost population through internal migration in each of the first six decades of this century and most southern states continued to experience out-migration through the 1960s, these losses were reversed in the 1970s.

Among the changes, which seem to have emerged in recent years in southern migration patterns, are the addition of more women than men to its population, and the attraction of more than 350,000 people annually, compared to only 130,000 in the late sixties. Also, for the first time, interregional migration is adding to the South's black population. Experienced workers are becoming a more dominant force in the South's migration gains, as it attracts workers in all occupations, instead of being limited to the white-collar and skilled craftsmen influx of the sixties. Finally, recent migration is causing the South to benefit from a North-South "brain drain," which is helping to lower the incidence of Southern poverty.

This new migration to the South is almost surely positive in its impact on the well-being of the region's population, Kahley says, pointing out migration helped to increase per capita personal income from 86 percent of the national income level, $3,945, in 1970 to 91 percent of the national income level, $9,521, in 1980.

It is unlikely that the South's favorable migration balance will be reversed in this decade. For environmental and economic reasons it appears that capital and businesses are still flowing into the South from other regions. It is likely that firms looking to the region are finding the changing composition of the resident workforce—older and more educated—to be an attractive feature of the South. It should also be encouraging to firms that past business investments in the region have succeeded in attracting workers from outside, the regional economist predicts.

Two major demographic events are likely to affect migration flows into the South in the 1980s, Kahley points out—the falling rate of natural increase for the nation, and the aging of the baby boom generation. The low rate of natural increase, combined with changes in the age structure of the population, will slow the growth of the migration pool. If the migration tendencies of the late seventies hold through this decade, then the South's yearly migration gain will hold steady, too. Furthermore, he says, the aging of the baby boomers suggests that the average age of migrants will rise as older workers continue to follow business to the South, joining the migration stream of the elderly retired.

Kerosene Heater Caution

Portable kerosene heaters have become increasingly popular with consumers seeking ways to reduce their utility bills. While these heaters are highly efficient, they also are potentially dangerous, says the Louisiana Department of Natural Resources, which is stressing the public's need to take certain precautions when using kerosene heaters.

Unvented heaters should always be used with adequate ventilation to guard against asphyxiation from the difficult-to-detect carbon monoxide fumes which are odorless, colorless, and nonirritating. As when using unvented natural gas heaters, residents should never go to sleep while the heaters are burning.

Kerosene produces three poisonous gases when it is burned—carbon dioxide, nitrogen dioxide, and sulphur dioxide. To avoid the greatest danger of these gases, consumers should be careful to use only 1-K grade kerosene, which has a maximum sulphur content of 0.04 percent by weight. Grade 2-K, or regular grade kerosene, has a sulphur content of 0.03 percent by weight, and is more dangerous than K-1 because of the noxious by-products it creates when burned.

Southeast Is Most Popular Industrial Relocation Area

A major geographical displacement of industry is taking place within the United States, according to **James S. Fisher** and **Dean M. Hanink** in the *Economic Review* of the Federal Reserve Bank of Atlanta, and, not surprisingly, the most popular relocation area is the Southeast.

In the past the Southeast has attracted the majority of light manufacturing industries such as textiles and apparel, or resource-tied industries such as lumber, furniture, paper and some kinds of chemicals. According to the report, the Midwest relied on the concentration of heavy industries—mainly primary metals, fabricated metals, transportation equipment and machinery. This pattern, however, has been changing in recent years.

In 1968, textiles employed 20 percent of manufacturing workers in the Southeast; apparel's share was 12 percent; and the next largest industry—chemicals—was only half the size of apparel. From 1968 to 1978, the traditional industries of the Southeast grew comparably slower than the average of all industries while the rest—the Northern industries—grew much faster than average.

Now industry is becoming more balanced between durables and nondurables with less reliance by most states on small numbers of industries. This pattern is fairly general and has resulted in the economic structure of the Southeast becoming comparable to the nation as a whole.

Small Businessmen Are Warned Of Unscrupulous Loan Brokers

Several Louisiana small businessmen, developers, farmers and a church were bilked last year by unscrupulous loan brokers, according to the state Department of Justice.

There has been a substantial increase in the number of frauds involving up-front fees to assure low-interest loans. Those fees often total several thousands of dollars, and they are given to unscrupulous brokers for loans that will never be made. Although there is a new state law to combat the problem, state records compiled by the state Office of Consumer Protection and the Department of Justice show Louisiana citizens lost at least $36,025 last year in advanced fees.

In the face of hard economic times for business, the problem of unethical loan brokerage is more prevalent as new and old businesses attempt to secure low-interest loans. The FBI, also involved in the investigation, describes the typical victim as an honest, enterprising small businessman seeking to borrow up to $3 million for his business. Lost amounts ranging from $250 to $10,000 have been recorded.

The Louisiana Loan Broker Law requires that a $25,000 surety bond or trust account be filed with the state treasurer and updated annually for those claiming to be loan brokers. Since the enactment of the law, the Justice Department has sent notices to nine persons throughout the state believed to be advanced-fee brokers. The department advises borrowers to ask brokers about the number of loans they have been asked to secure and the number of loans they have actually placed in the borrowers. Prospective borrowers should consult an attorney before signing any contracts.

New Grain Transfer Facility In Operation on Mississippi

The world's largest floating grain-transfer facility has gone into operation on the Mississippi River, north of New Orleans. Operated by Rogers Terminal & Shipping Corporation, stevedoring division of Cargil, Incorporated, the $16.2 million facility is capable of loading vessels with 1,500 tons of oilseed meal per hour. It is 330-feet long by 75-feet wide and operates while secured between an ocean vessel and a barge. The facility's bucket type unloader can unload 2,000 tons of meal per hour—more than an entire barge load.

☐

(continued from page 2)

expenditures have also received favorable tax treatment.

The recent budget cutbacks in the state government's operating budget have highlighted the fact that Louisiana is not recession-proof. A factor of even more basic concern is that Louisiana's tax structure is not very elastic. This means that the tax structure of Louisiana does not generate a growth of revenues sufficient to keep pace with increasing prices and real growth in the economy. In "Louisiana Revenues and Expenditures: The Next Five Years," William G. Black, an economist with the Legislative Fiscal Office, examines the history and expenditures of state revenues and makes projections for the next five years. In the past 10 years, significant tax increases were produced by tax rate increases or by "windfall gains", such as oil price decontrol, which resulted in an increase in the price of oil. In the absence of future windfalls or tax rate increases, and state tax collection increases, the inelastic nature of the state's tax structure will result in state revenues not keeping pace with state expenditures.

This issue's FORUM column features an article written by Thomas Birch, instructor in LSU's Department of Economics, and Gregory Findley, planning analyst for Louisiana's Department of Health and Human Resources. "Federal Welfare Expenditure Changes: Impact on Louisiana's AFDC Recipients," examines one aspect of the expenditures result of tax reductions. The authors examine the reduction in the federal government financing of AFDC in general and Louisiana in particular, and they present some arguments against these reductions.

—The Editorial Board ☐

Thomas D. Birch and Gregory D. Findley

FORUM

Federal Welfare Expenditure Changes' Impact on Louisianans

Given the Reagan administration's emphasis on reducing federal budget deficits and commitment to increasing real defense outlays, the long run significance of the Economic Recovery Tax Act of 1981 may very well be the resulting reductions in nondefense spending. The impact that such reductions in the area of social welfare programs have had, and may have in the future, are analyzed in this article, with emphasis on the Aid to Families with Dependent Children (AFDC) program. Reductions in outlays for the AFDC program are found to lower the real income of recipients and erode the work incentives required to encourage their economic and social mobility. The opinions expressed in this article are those of the authors, and do not necessarily represent those of the Louisiana Department of Health and Human Resources or Louisiana State University, Baton Rouge.

The Economic Recovery Tax Act of 1981 has attracted public attention both because of the size of the tax reductions it authorized and because individual taxpayers will benefit directly from its permanent reductions in personal income tax rates. One important consequence of the tax cuts in view of the Reagan administration's basic commitments to reducing overall federal government outlays as a percentage of the gross national product, dramatically increasing real defense expenditures and balancing the federal budget, will be large and permanent reductions in outlays for nondefense programs. One set of nondefense programs faced with such reductions is social welfare.

Such social welfare programs as Aid to Families with Dependent Children (AFDC), Food Stamps, Medicaid and Supplemental Security Income provide cash and in-kind assistance to individuals meeting certain "need" criteria, typically based on income. It is useful to distinguish such programs from social insurance programs (e.g., Medicare), which make payments to individuals who

TABLE 1

Total AFDC Payments in Louisiana, Fiscal Years 1978-79 through 1982-83

	Actual Dollars		Real Dollars	
Fiscal Year	Payments	Percentage Change	Payments	Percentage Change
1978-79	$ 95,717,891	—	$ 95,717,891	—
1979-80	108,939,870	13.8	95,310,472	−0.4
1980-81	128,132,354	17.4	102,424,423	7.5
1981-82	129,951,357	1.4	96,906,306	−5.4
1982-83	130,032,000	0.1	90,237,335	−6.9

1 Adjustment to real dollars is based on the Consumer Price Index for June in each Fiscal Year, with FY 1978-79 = 100. It was assumed that the CPI will increase by 7.2 percent from June 1982 to June 1983.

2 Payments for FYI 1982-83 represent the funds appropriated for AFDC payments in the Fiscal Year 1982-83 Louisiana State Budget. All other payment figures are actual payments.

Source: Louisiana Department of Health and Human Resources

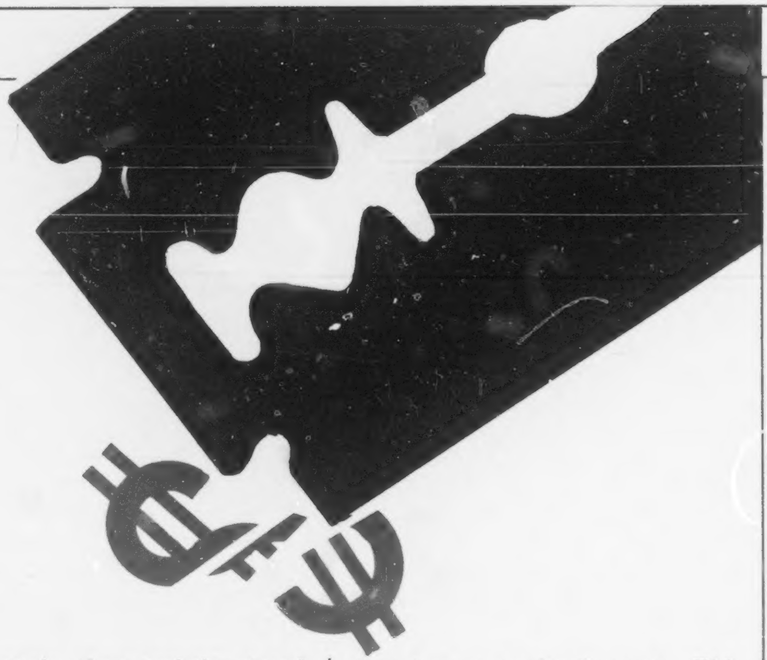
TABLE 2

Actual and Real Dollar Value of Monthly AFDC Flat Grant for a Family of Three With No Earnings in Louisiana, Fiscal Years 1978-79 to 1982-83

	Actual Dollars		Real Dollars	
Fiscal Year	Grant	Percentage Change	Grant	Percentage Change
1978-79	$138	—	$138	—
1979-80	153	10.9	134	−2.9
1980-81	173	13.1	138	3.0
1981-82	190	9.8	142	2.9
1982-83	190	0.0	132	−7.0

1 Adjustment to real dollars is based on the Consumer Price Index for June in each Fiscal Year, with FY 1978-79 = 100. It was assumed that the CPI will increase by 7.2 percent from June 1982 to June 1983.

Source: Louisiana Department of Health and Human Resources



have certain characteristics (aged, unemployed or disabled), and who have contributed financially to the programs' support.

Although there are many welfare programs directly affecting low-income Louisiana residents, the AFDC program is considered here, because it serves the poorest of the poor. Also, unlike the Food Stamp Program, where determination of benefit levels, establishment of eligibility criteria and financing are the responsibility of the federal government, the AFDC program entails considerable state responsibility.

Impact of Revisions

Under the AFDC program, cash payments are made directly to eligible AFDC families (typically, low-income, single-parent families with dependent children), some of which have no other source of income, except for benefits they may receive from other welfare programs.[1] The AFDC program perhaps is best thought of as a federal grants-in-aid program, in which the government helps share program costs with the states. States establish their own benefit levels and exercise discretion in determining some eligibility standards. The federal-to-state proportion of AFDC program costs (called the "matching rate") varies across the U.S., and is dependent upon each state's per capita income. This matching rate averages 54 percent and ranges from 50 to 74 percent. In Louisiana the matching rate is 67 percent, meaning the federal government contributes $.67 of every dollar paid to eligible AFDC families. State and federal payments to individuals under this program, for fiscal years 1979 through 1983, are presented in *Table 1*. This information provides an overview of the level of commitment of Louisiana to the FDC program, and reflects a decline in current support for it.

Federal law requires each state to establish annual "needs" standards for AFDC families. There is, however, no federal requirement that payments by the state be adjusted to needs. About half of the states, including Louisiana, do not pay the full amount of the needs standard, which is set below the poverty line.[2] This means that for already established federal benefit payments and eligibility criteria in other welfare programs (e.g., Food Stamps, Energy and Housing Assistance), each state has the power—via its control over AFDC benefits levels—to determine by how far an AFDC family will be below the poverty level. A measure of the most recent Louisiana effort to help the lowest income level—nonworking, single-parent families, with no other source of income—is found in *Table 2*.

Two notable facts emerge from *Table 2*. First, payments to those truly needy AFDC families have fluctuated in real terms over the past few years. Second, the table shows that real AFDC payments to these families in FY 1982-83 will fall to the lowest level since FY 1979-80, due to the recent Louisiana decision not to increase benefits for this year.[3] The conclusion to be drawn from this data is that the average AFDC nonworking family of three will see its real payment decline slightly in FY 1982-83; a change that could have an adverse effect on the very poor. Even taking into account payments from other welfare programs, (e.g., Food Stamps and Energy Assistance), Louisiana's payments are insufficient to raise the average AFDC family to the poverty level. For example, the average monthly disposable income for a *non-working*[4] AFDC family of three is $366, or 62 percent of the poverty level. The national average is $450 per month, or 76 percent of the poverty level. Furthermore, this average monthly income will drop to $356 per month in Louisiana, or 60 percent of poverty, under FY 1982-83 national administration proposals.[5]

The 600,000 *working* AFDC recipients and their families perhaps represent the national group most adversely affected by the FY 1981-82 and proposed FY 1982-83 AFDC program changes. Immediately prior to the federal budget reductions accompanying the 1981 Tax Act, an average working AFDC family of three had a monthly disposable income of $595, which was 1 percent *above* poverty level. It is estimated the 1982 changes will decrease that same family's monthly disposable income to $476, or 19 percent *below* the poverty line. In Louisiana, a similar pattern emerges for the working poor. The monthly disposable income of a working AFDC family of three will fall from $449 (76 percent of poverty) in 1981 to an estimated $371 (63 percent of poverty), under current law.[6]

The cause of these income reductions for working AFDC families stems from several changes in federal AFDC regulations enacted in FY 1981-82. In effect, these changes raised the measured income of many AFDC households and resulted in some four thousand families become totally ineligible for AFDC aid, while others began receiving lower payments.[7] Some additional AFDC program changes proposed by the administration for FY 1982-83 will further restrict eligibility.[8] In Louisiana, it is estimated the monthly disposable income of a working AFDC family of three, with average earnings, will fall to $349 (59 percent of poverty), if these proposals are enacted.[9]

Welfare Reduction

It is perhaps worthwhile, at this point, to examine the arguments offered to justify the benefit cuts in welfare programs. The following arguments appear representative of at least some of the influential views that have helped form opinions against maintaining or increasing previous levels of real welfare spending. Reconsidering these arguments will be useful in developing a more clear understanding of welfare reform and some of its impact on welfare recipients, particularly the working poor.[10]

1. *Welfare programs discourage work incentives among the poor.*

Concern about improving work incentives is one of the central pillars of the supply-side economic philosophy that helped motivate the passage of the 1981 Economic Recovery Tax Act. According to this argument, cutting welfare payments will encourage work among the poor because it will become more expensive not to work. Therefore, cutting welfare payments is seen as contributing to economic and social mobility for the poor, and to overall U.S. economic growth.

The striking fact about the recent welfare programs changes is that they may very well *reduce* work incentives among the poor, while ironically *increasing* the number of families dependent upon welfare. Although a working person collecting welfare benefits may not formally pay income taxes, that person is still subject to a marginal benefit-reduction rate, by which additional welfare benefits are sacrificed as additional dollars of income are earned above some specified minimum. The marginal benefit-reduction rate is identical to a marginal income tax rate, in that it imposes additional losses on the individual as he earns additional income. Marginal tax rates are decisive in determining whether or not an individual will desire to work more or less.[11]

In Louisiana, prior to the FY 1981-82 program changes, for every additional dollar earned by AFDC recipients, their benefits were reduced by $.67. Now, after the FY 1981-82 changes affecting welfare programs, the marginal benefit reduction rate for that same Louisiana worker stands at 97 percent. Moreover, under the Reagan administration's FY 1982-83 welfare program proposals, this rate would reach 103 percent in Louisiana.

These extremely high marginal tax rates imply that, while in FY 1980-81, a three-person AFDC family having a working parent with average earnings could have expected to make $83 per month more than a similar family with no working parent, in FY 1981-82, the monthly income difference between the two families was only $5. Furthermore, under the administration's FY 1982-83 proposals, a working AFDC family actually ends up with $7 per month *less* in disposable income than an AFDC family with no workers.[12] Clearly, this policy is both inconsistent with the supply-side principle of promoting work effort, and is harmful to the working poor with dependent children trying to better their economic positions and future opportunities.

A further important consequence of eliminating virtually all incentives for AFDC families to work themselves out of poverty is that AFDC parents may begin reducing their work efforts, or never attempt to work in the first place. In the process, AFDC families may become more dependent upon welfare payments as a means of subsistence. This has the additional implication that the anticipated federal and state savings from the changes legislated for the AFDC program may be overly optimistic.

For example if working Louisiana AFDC parents should become totally dependent on welfare payments (at a sacrifice of only $5 per month in 1982), then the estimated federal costs will increase by roughly $50 per month, per family.[13] This will occur because unemployed AFDC parents are eligible for more AFDC payments, as well as benefits from other welfare programs such as Food Stamps, than are their working counterparts. Thus, welfare payments increase if working AFDC families elect to quit.

2. *The relatively poor performance of the U.S. economy over the past decade can be attributed to the rapid rise in government outlays, particularly for those programs, such as welfare, that are designed to redistribute income. It is necessary, therefore, to reduce the amount of welfare payments to improve the overall economic situation.*

There is little doubt that, from a federal policy perspective, the relationship between macroeconomic objectives such as economic growth, stable prices and full employment, and national redistributive objectives (the intent of welfare programs) has changed over the past 20 years. In the 1960s, the stance seemed to be that redistributive government policies are positively harmful to the attainment of macroeconomic goals. In fact, however, it is unclear how much of the U.S. economic slowdown can be attributed directly to governmental policies, much less that component of government policy which transfers resources to the needy.[14] Even if it were determined that redistributive policies hinder the attainment of macroeconomic growth, there is no *a priori* rule for making cuts in programs that redistribute income to the poor, relative to programs that redistribute income based on other criteria (e.g., the Social Security program, which redistributes income primarily on the basis of age).

Another important point to make in response to this argument is that while welfare programs, as a whole, have grown both relative to the GNP, and as a percentage of the federal budget, certain programs—most notably AFDC—have declined in real terms during the past few years. To attribute our relatively sluggish macroeconomic performance to governmental assistance to the poor, which constitutes only approximately 1 percent of GNP and only 9 percent of total federal budgetary outlays, stretches credulity.[15] Further, targeting the outlays for a specific program like AFDC which has been declining in both real terms and relative to the GNP, for disproportionate cuts cannot be expected to have a significant effect on a $2.8 trillion economy. Understanding and correcting the causes of our relatively poor macroeconomic performance is a much more complex matter than reducing, or even eliminating, government programs that redistribute income to the needy.

Summary and Conclusions

The brighter economic future envisioned by the Reagan administration—intended to be sparked by the Economic Recovery Tax Act of 1981—may yet be forthcoming. However, as the situation stands, both working and nonworking AFDC families are not likely to share in these potential economic gains. Indeed, given the extraordinary disincentives to work, currently confronting AFDC families, there is little hope AFDC parents will be able to help themselves out of poverty. The result of this situation may be greater welfare dependency and significant reductions in the savings anticipated from enacted and proposed welfare program revisions.

If the Reagan administration is to realize the lower levels of welfare dependency and welfare program costs that it desires, then its welfare reform efforts should concentrate on such issues as restoring the incentives to work among the poor by significantly reducing the marginal benefit reduction rate, and establishing a clear and meaningful criterion of need that is immune from *ad hoc* changes detrimental to the poor.

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[1] For example, AFDC families are automatically eligible for Medicaid payments, and most families (75 percent) receive at least some food stamps.

[2] In addition, states have the option of providing AFDC payments to households with an unemployed parent; one-half of the states provide such a payment, Louisiana does not.

[3] Although this was a Louisiana decision, it is appropriate to point out that some (but by no means all) of the "tight" fiscal environment state legislators found themselves operating under, was partly a result of macroeconomic conditions and exogneous budget cuts—besides cuts in welfare programs—that were the result of federal economic policy decisions.

[4] It is important to note that the discussion here is about the very poor who have no other source of income beyond welfare payments.

[5] Tom Joe, *Profiles of Families in Poverty: Effects of the FY 1983 Budget Proposals on the Poor* (Washington, D.C.: The Center for the Study of Social Policy, February 1982): p. 10.

See also:
Sheldon Danziger and Robert Haveman, "The Reagan Budget: A Sharp Break With the Past," Challenge (May/June 1981): pp. 5-13.

These reductions are the result of the following: (1) grants of all AFDC families will be reduced dollar-for-dollar by the amount of energy assistance benefits received and Food Stamp benefits will be reduced for each $10 received in energy assistance; and (2) changes in the formula by which Food Stamp benefits are calculated.

[6] Joe, p. 15.

[7] These changes are too numerous to list here, but among the most important legislated in October, 1981 were (1) the provision that stepparent income be included in AFDC household income; (2) that a 33-percent income disregard be applied after subtracting the standard deduction and allowances from earnings, instead of before; and (3) a smaller allowable deduction for child care.

[8] Most notable among the FY 1982-83 proposals is the provision requiring the income of unrelated persons living in the AFDC household be included in family income. Another important feature is the mandatory employment search.

[9] Joe, p. 15.

[10] For a critical review of the potential effects of welfare reform see Sheldon Danziger, Robert Haveman and Robert Poltnick, "How Income Transfer Programs Affect Work, Saving, and the Income Distribution: A Critical Review," *Journal of Economic Literature* (September 1981), pp. 975-1028.

[11] Edgar K. Browning and Jacqueline M. Browning, Public Finance and the Price System (New York: MacMillan Publishing Co., 1979), pp. 214-224.

[12] Joe, Appendix A.

[13] Joe p. 22.

[14] Martin S. Feldstein, ed., The American Economy in Transition (Chicago: University of Chicago Press, 1980).

[15] Certainly the effects of tax policy, monetary policy and the impact of the Social Security System would have to be taken into account in explaining how government policies may adversely affect our economic performance (see Feldstein).

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William G. Black

Louisiana Revenues and Expenditures: The Next Five Years

Louisiana's tax structure is not producing sufficient revenues to keep pace with either inflation or the state economy. In the face of negative economic trends, Louisiana government must address the tasks of achieving more efficient operation, program cutbacks, and design of a more responsive tax structure.

Louisiana's revenue sources are not generating sufficient dollars to keep pace with its annually-expanding costs for providing services to its citizens. This situation, until recently, existed paradoxically during a time when the State never seemed so wealthy, and resources exceeded all demands, like some constantly self-filling pitcher. Only in recent months have Louisianians begun to look around themselves and wonder where all the money went. The truth is that the boomtimes of petroleum-related windfalls appear to be behind us, and the people of Louisiana must address a future of greater financial contributions to well-planned and responsible governmental programs, or face the alternative of fewer government services.

The recent history of Louisiana revenue collections is one of high rates of revenue growth, due to either tax increases or oil-related windfalls, followed by a noticeable slowing of revenue growth. This pattern of revenue collections relates to a tax structure that, by itself, does not generate a growth in revenues sufficient to keep pace with inflation and the real growth of the Louisiana economy. To keep government operating at acceptable levels of service, periodic tax increases or windfalls have been required.

FIGURE I
LOUISIANA GENERAL FUND REVENUES
HISTORICAL AND PROJECTED
RATES OF GROWTH

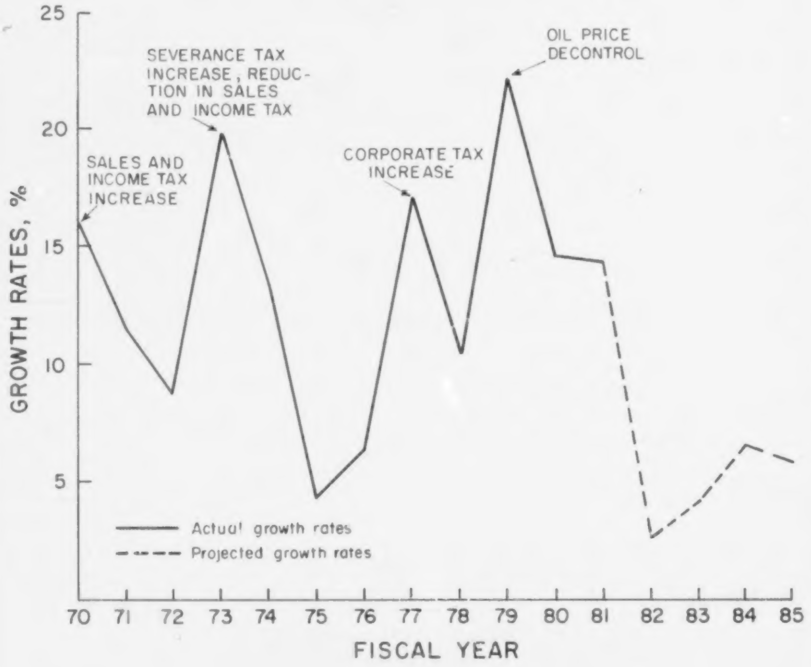
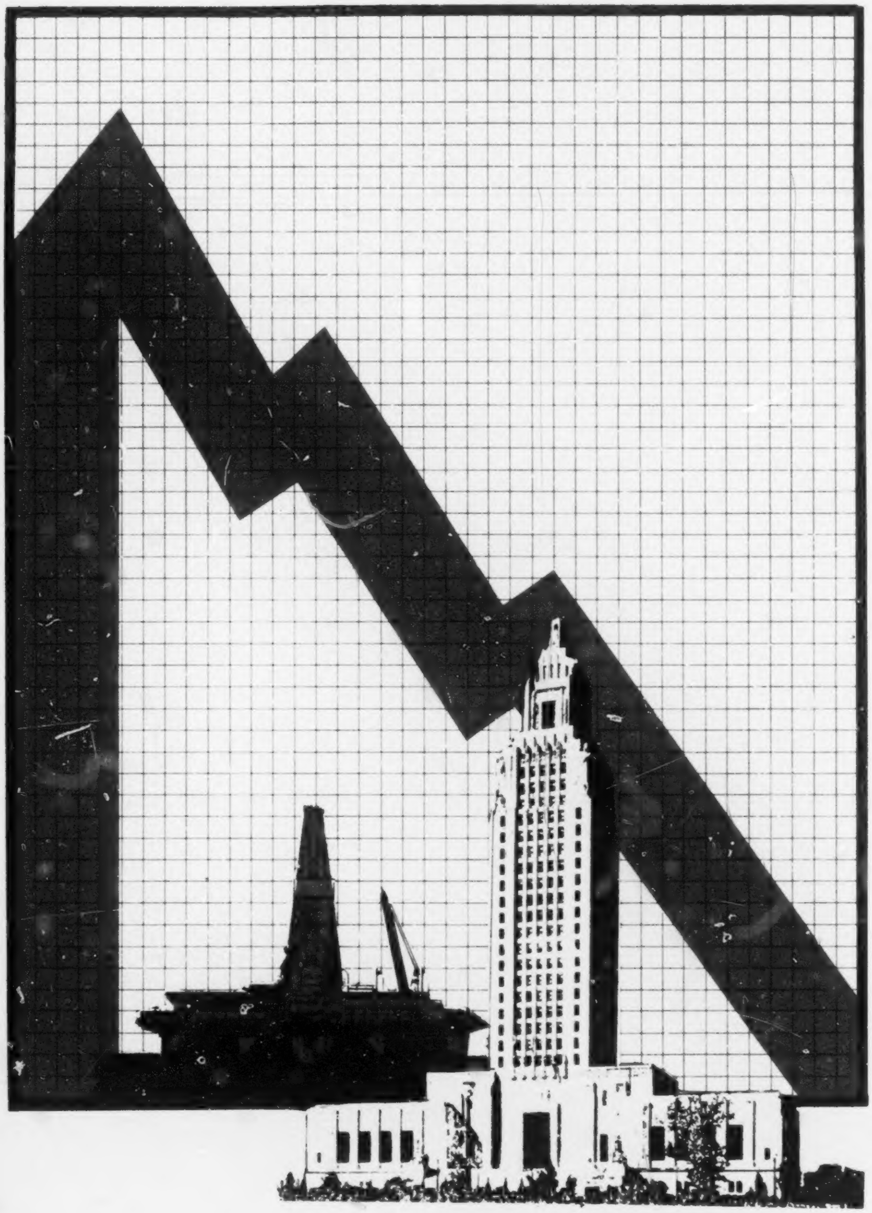


FIGURE I. LOUISIANA GENERAL FUND REVENUES HISTORICAL AND PROJECTED RATES OF GROWTH

TABLE I
Growth Rate Comparisons

Fiscal Year	State Revenues	State Expenditures	La. Personal Income
1977-78	15.9%	11.7%	15.0%
1978-79	9.6	7.2	14.6
1979-80	20.6	19.5	13.9
1980-81	12.1	16.6	13.1



For the past three years Louisiana has benefited greatly from oil decontrol. In fact, this windfall was substantial enough to allow a reduction in personal income taxes in 1980. However, increased revenues resulting from high oil prices have obscured the fundamental downward trend of state revenues.

From 1971 to 1982, state revenue growth averaged 12 percent, which exceeded the 7 percent average inflation rate during this period. As *Figure 1* shows, however, year to year growth was somewhat sporadic. Between the years in which the tax changes had their full effect, revenue growth averaged only about 7.3 percent—only slightly better than inflation.

Low rates of growth during these years were the result of two factors. First, oil and gas production was declining. Severance taxes declined annually from fiscal 1974, the first full year in which oil severance taxes were collected on a value basis, until the rapid oil price increase in fiscal 1979. Secondly, many taxes respond only to real economic growth and not to inflation. These low growth rates acted as a drag on overall revenue growth.

Since 1976, recurring expenditures have increased at an average rate of 13.8 percent, while revenues grew at a rate of 14.6 percent.[1] The growth rates of revenues, expenditures and Louisiana personal income are compared for the last four fiscal years in *Table I*. Over the 10-year period, state revenues and personal income have grown at very nearly the same rates. State revenues increased at an average of 12.6 percent, while Louisiana personal income increased at an average of 12.2 percent. However, this was not the case on an annual basis. This near-equality windfall caused state revenues to grow at a substantially faster rate than personal income for one or two years. During the years in which no tax changes occurred, personal income growth exceeded growth in state revenues by as much as 5 to 10 percent.

A comparison of growth rates for Louisiana personal income and for state expenditures since 1976-77 indicates average expenditure growth has also been approximately equal to income growth. Again, however, this was not the case on a yearly basis.

Revenue Projections

The five-year forecasts developed in *Table II* were derived from an extension of the forecasting model used by the Legislative Fiscal Office.[2] Tax forecasting equations relating tax collections to either nominal or real changes in Louisiana personal income were applied to determine income elasticities for major taxes.[3] These elasticities, in turn, were used to estimate expected tax collections resulting from projected changes in state personal income. For oil and gas revenues, estimates were computed directly from price assumptions, production estimates and the relevant tax rates. Minor revenue sources were estimated by using less formal techniques.

As in most long-term forecasts, assumptions about key economic variables are critical to the analysis, the basic assumptions of which are summarized in *Table II*. Among the more important of these assumptions are oil prices, oil and gas production, inflation, real economic growth and state expenditure projections.

Oil price increases affect the State's revenues directly through severance taxes, royalties, rentals and bonuses; and indirectly through higher tax collections from income taxes, sales taxes and taxes on other economic activities.

The recent worldwide oil glut has demonstrated the classic problem faced by any cartel—enforcing output limitations during a time of reduced demand. It has also had a dramatic effect on crude oil prices in the world market and in Louisiana. These assumptions project no change from the current average price of $32/bbl during fiscal 1982-83, but anticipate a 4 percent annual increase in future years.[4] Such a forecast implicitly assumes that OPEC will be unable to keep inflation-adjusted prices at current official levels, but does not imply a complete breakdown of the cartel leading to competitive price cutting.

Oil and gas production also affect the state's revenue outlook, although not as dramatically as price changes. During the 1970's, oil and gas production was declining at annual rates of 8.2 percent and 5.8 percent, respectively. Price deregulation generated a new wave of exploratory activity during the 1979-81 period. While this new activity has not reversed the negative trend, it has lessened the rate of decline in both oil and gas production.

Production estimates for 1981-1982 suggest petroleum production is now declining at an annual rate of about 4 percent. Louisiana gas production appears to be falling by about

TABLE II
Summary of Assumptions for Five Year Projection

	Fiscal Year				
Item	**1982-83**	**1983-84**	**1984-85**	**1985-86**	**1986-87**
Louisiana Oil Prices (per barrel)	$ 32	$ 33.28	$ 34.65	$ 36.00	$ 37.43
Oil Production (millions of barrels)	197.00	193.00	189.00	185.00	182.00
Gas Production (trillion cubic feet)	2.23	2.16	2.10	2.04	1.97
Inflation (%)					
High	6.5	10.0	10.0	10.0	10.0
Low	6.5	5.0	5.0	5.0	5.0
Personal Income Real Growth (%)	4.0	4.0	6.0	4.6	4.6

TABLE III
Revenue Projections With Low Inflation
($Millions)

Tax Group I (Nominal Growth)	**1982-83**	**1983-84**	**1984-85**	**1985-86**	**1986-87**
Corporate Franchise	$ 105.4	$ 113.4	$ 123.8	$ 133.8	$ 144.6
Corporate Income	309.0	331.2	360.2	387.8	417.4
Personal Income	262.2	281.9	319.9	357.9	399.7
Sales, General	935.7	1,015.7	1,121.8	1,224.2	1,335.8
Sales, Motor Vehicle	113.4	123.9	137.8	151.4	166.2
Excise License	86.7	95.5	107.3	118.9	137.7
Others	219.7	234.8	260.6	285.6	313.1
Total Group I	2,032.1	2,196.4	2,431.4	2,659.6	2,914.5
Growth Rate (%)	—	8.4	10.7	9.4	9.4
Tax Group II (Real Growth Only)					
Alcohol Beverage	22.8	23.9	25.6	27.0	28.5
Beer	36.5	37.8	39.9	41.6	42.6
Tobacco	66.3	67.5	69.0	70.8	72.6
Gasoline	167.0	173.6	183.9	192.3	201.7
Special Fuels	26.7	27.7	29.4	30.7	32.3
Total Group II	319.3	330.5	347.8	362.4	377.7
Growth Rate (%)	—	3.5	5.2	4.2	4.2
Tax Group III (Oil and Gas)					
Severance	929.2	940.4	951.6	961.6	972.6
Royalties	431.4	441.4	446.2	450.7	455.7
Rentals	57.4	56.4	57.1	57.7	58.4
Bonuses	100.0	100.0	100.0	100.0	100.0
Total Group III	1,518.0	1,538.2	1,554.9	1,570.0	1,586.7
Growth Rate (%)	—	1.3	1.1	1.0	1.1
Miscellaneous Revenues					
Interest	168.5	140.0	140.0	140.0	140.0
Others	37.7	39.4	41.1	42.2	43.5
TOTAL REVENUE	$4,075.6	$4,244.5	$4,515.2	$4,774.2	$5,062.4
GROWTH RATE (%)	—	4.1	6.4	5.7	6.0

5 percent per year. For the next five years, oil production is expected to fall by 2 percent annually, while gas production is projected to decline at a 3 percent annual rate. These rates may be somewhat optimistic, but are believed to be reasonable, provided oil price uncertainty and the national recession do not continue very much longer.

Inflation also contributed to the high revenue growth rates during the late 1970s and early 1980s. Unlike oil price increases, however, inflation is a mixed blessing. The state collects more revenues because of rising prices and incomes, but it also suffers from faster growth in its expenditures.

The five-year projections of *Tables III and IV* incorporate low and high inflation assumptions of 5 percent and 10 percent, respectively. These projections provide convenient reference points for judging the impact of inflation on both collection of revenues and of expenditures.

TABLE IV
Revenue Projections With High Inflation
($Millions)

Tax Group 1 (Nominal & Real Growth)	**1982-83**	**1983-84**	**1984-85**	**1985-86**	**1986-87**
Corporate Franchise	$ 105.4	$ 117.8	$ 133.6	$ 150.0	$ 168.4
Corporate Income	309.0	327.9	362.1	397.1	429.8
Personal Income	262.2	313.9	402.8	460.1	549.6
Sales, General	935.7	1,060.1	1,221.3	1,390.7	1,583.6
Sales, Motor Vehicle	113.4	129.7	150.9	173.5	199.4
Excise License	86.7	100.3	118.4	137.8	160.4
Others	219.7	245.6	284.8	326.4	374.1
Total Group I	2,032.1	2,295.3	2,673.9	3,035.6	3,465.3
Growth Rate (%)	—	13.0	16.5	13.5	14.3
Tax Group II (Real Growth Only)					
Alcohol Beverage	22.8	23.9	25.6	27.0	28.5
Beer	36.5	37.8	39.9	41.6	42.6
Tobacco	66.3	67.5	69.0	70.8	72.6
Gasoline	167.0	173.6	183.9	192.3	201.7
Special Fuels	26.7	27.7	29.4	30.7	32.3
Total Group II	319.3	330.5	347.8	362.4	377.7
Growth Rate (%)	—	3.5	5.2	4.2	4.2
Tax Group III (Oil and Gas)					
Severance	929.2	940.4	951.6	961.6	972.6
Royalties	431.4	441.4	446.2	450.7	455.7
Rentals	57.4	56.4	57.1	57.7	58.4
Bonuses	100.0	100.0	100.0	100.0	100.0
Total Group III	1,518.0	1,538.2	1,554.9	1,570.0	1,586.7
Growth Rate (%)	—	1.3	1.1	1.0	1.1
Miscellaneous Revenues					
Interest	168.5	210.0	210.0	210.0	210.0
Others	37.7	39.4	41.1	42.2	43.5
TOTAL REVENUE	$4,075.6	$4,413.4	$4,827.7	$5,220.2	$5,683.2
GROWTH RATE (%)	–	8.2	9.3	8.1	8.8

A third factor affecting revenue growth is the rate of *real growth* of the Louisiana economy. When inflation and real growth occur simultaneously, the impact on value-based taxes is cumulative. Moreover, for volume-based levies such as the gasoline, special fuels, alcohol and tobacco taxes, real economic growth is the primary factor affecting tax collections. Inflation will have an indirect impact on volume-based tax levies only if, hidden in the inflation, such as a shift to more fuel-efficient automobiles.

A review of the Louisiana economy shows real personal income growth averaged 4.6 percent between 1970 and 1980. This performance was better than the national average; however, the state's economic performance experienced considerable variation as the national economy improved or declined. To accommodate this cyclical pattern, the growth rates of the three "upswing years" for each of the last two business cycles were related to the overall growth for the three-year period. In these cycles, the Louisiana economy responded slowly to national economic recovery in the first two years, but expanded rapidly by the third year of the cyclical upswing. Using 1982-83 as the base year of the recovery, the projected growth rates for 1983-84 and 1984-85 reflect this pattern. Growth rates for 1985-86 and 1986-87 are projected at historical averages, because the peak growth of the economic cycle is never sustained.

Revenue projections incorporating these assumptions are reflected in *Tables III and IV*. Also included are other miscellaneous revenue sources which do not respond directly to inflation or real growth. The most significant of these is interest income earned by the state on short-term investments. For 1982-83, interest rates were projected at 11.5 percent. The average investment portfolio throughout this period is projected at $1.5 billion. It is assumed that interest rates after 1982-83 average four percent above the inflation rate.

Expenditure Projections

Expenditures that respond to real growth and inflation represent the bulk of the state's recurring costs. These include General Fund appropriations for operation of various departments, transfers to local government units or individuals and the operation of vocational-technical schools and the higher educational system *(Tables V and VI)*.

Debt service has also expanded at rates similar to nominal growth, although growth of this item can be controlled by decisions regarding new bond-financed capital outlay. Since this survey is confined to operating expenses, it is assumed in these projections that debt service will not increase in the future. To project state expenditures, it is assumed program expenditures *will increase at the same rate as personal income*. Thus, if personal income grows by 10 percent, the state will increase expenditures for government services at an equal rate. This concept assumes expenditures grow at a rate equal to the sum of inflation and real economic growth. Inflationary increases account for providing the same amount of services at higher prices; the real growth rate adjusts expenditures to reflect growth of both population and economic activity. Projecting program expenditure growth as being equal to personal income growth also corresponds closely to historical practice.[5]

Some expenses do not respond to overall growth of personal income. Certain expenditure requirements (e.g., severance taxes returned to parishes) have absolute dollar limits which effectively keep the cost constant from year to year. Other costs are tied to volume taxes, and therefore increase in relation to real growth. Still others, such as the LIFE Fund[6] or Royalty Road Fund relate more to oil and gas prices than to growth.

A major expense category, not included in these projections, is cash outlay programs. Strictly speaking, capital outlay is not a part of ordinary government operations. Moreover, Louisiana capital expenditure has frequently been financed by a current or previous surplus of state revenues. Since capital expenditure can be adjusted to fit the size of any available surplus, it has *not* been included in the expenditures shown in these projections.

Analysis and Conclusions

Tables VII and VIII compare total revenues and expenditures under the two inflation assumptions. These tables indicate that without either tax increases or new oil windfalls, state government cannot continue to provide the same level of expenditures relative to personal income that it provides today. Although the taxes in Group I grow at rates adequate to

TABLE V
Expenditure Projections For Low Inflation
($Millions)

	1982-83*	1983-84	1984-85	1985-86	1986-87
General Appropriations and Other Recurring Government Expense	$3,550.1	$3,869.6	$4,295.3	$4,707.6	$5,159.5
Constitutional and Statutory Requirements**	465.8	470.5	475.0	479.9	484.5
LIFE Fund	88.9	61.4	37.7	11.9	0
Total Recurring Expenditure	$4,104.8	$4,401.5	$4,808.0	$5,199.4	$5,644.0

General appropriations are projected at a level sufficient to keep government expenditure at the same percentage of personal income over time. See Table II for a Summary of Assumptions.

*Values for 1982-83 are based on Current Fiscal Office estimates and 1982-83 Appropriations Bill as signed by the Governor.

**Because most items in this category grow very slowly absent changes in policy, a growth rate of only 1% is assumed. This assumption means that *there is no net increase in debt service cost* over 1982-83 levels.

TABLE VI
Expenditure Projections With High Inflation
($Millions)

	1982-83*	1983-84	1984-85	1985-86	1986-87
General Appropriations and Other Recurring Government Expense	$3,550.1	$4,047.1	$4,694.8	$5,380.1	$6,165.6
Constitutional and Statutory Requirements**	465.8	470.5	475.0	479.9	484.1
LIFE Fund	88.9	61.4	6.1	0	0
Total Recurring Expenditure	$4,104.8	$4,579.0	$5,175.9	$5,860.0	$6,649.7

General appropriations are projected at a level sufficient to keep government expenditure at the same percentage of personal income over time. See Table II for a Summary of Assumptions.

*Values for 1982-83 are based on Current Fiscal Office estimates and 1982-83 Appropriations Bill as signed by the Governor.

**Because most items in this category grow very slowly absent changes in policy, a growth rate of only 1% is assumed. This assumption means that *there is no net increase in debt service cost* over 1982-83 levels.

TABLE VII
Recurring Revenues and Expenditures With Low Inflation ($Millions)

	1982-83	1983-84	1984-85	1985-86	1986-87
1. Revenue	$4,075.6	$4,244.9	$4,517.9	$4,777.1	$5,060.1
2. Expenditures	4,104.8	4,401.5	4,808.0	5,199.4	5,644.0
3. Surplus (Deficit)	(29.2)	(156.6)	(290.1)	(422.3)	(583.9)

See Table II for basic assumptions.

TABLE VIII
Recurring Revenues and Expenditures With High Inflation ($Millions)

	1982-83	1983-84	1984-85	1985-86	1986-87
1. Revenue	$4,075.6	$4,413.5	$4,791.8	$5,220.2	$5,682.1
2. Expenditures	4,104.8	4,579.0	5,175.9	5,860.0	6,649.7
3. Surplus (Deficit)	(29.2)	(165.5)	(384.1)	(639.8)	(967.6)

See Table II for basic assumptions.

fund projected expenditure increases, the growth of tax revenues in *Groups II and III* fall short of the needed growth rates. As a result, overall revenue growth rates are 2 to 4 percent below the annual rate of expenditure increases.

It is also clear from these tables that inflation is not helpful in balancing the budget, since inflation causes expenditures to increase faster than revenues. Almost all of the state's expenditures are affected by inflation, whereas only about one-half of the state's revenue sources directly respond to inflation. It is notable that those taxes that respond to inflationary increases (e.g., sales and income in Group I) actually increase more than the projected growth of expenditures. This occurs because several of these taxes are very sensitive to changes in personal income (either real or inflationary). Personal income taxes, because of the progressive tax scale, actually grow faster than personal income increases.

These projections do not estimate the exact amounts of the state's revenue and expenditures for future years. They provide only an approximate picture of the state's fiscal status over the next five years, assuming there will be no major economic changes, no major changes in the tax structure, nor any changes in the level of government services. However, the fact that each projection reflects the same trend allows the following five meaningful and important conclusions to be drawn:

1. The state's revenue structure, without periodic tax changes or windfall gains, cannot generate revenues required to supply a constant real level of state services;
2. The deregulation windfall of 1979-80 will soon be depleted, barring a new increase in the price of oil, while recurring budget surpluses generated by this windfall will soon be nonexistent;
3. A decline in continuing government services as a percentage of state personal income will occur in 1983-84, unless the basic tax structure is altered, new taxes are added, or a new oil windfall occurs;
4. Traditional surpluses that have been available to finance the cash portions of the capital outlay bills will be significantly reduced; and,
5. While a significant effort is needed to identify state programs that can be eliminated, cut back, or operated more efficiently, long-term revenue problems can be resolved only by changes that make the tax structure more responsive to the same factors that affect the bulk of the state's operating expenditures—inflation and real growth.

[1] Constitutional and budgeting changes make pre-1976 expenditure data incompatible with post-1976 expenditure data. Hence only expenditures from fiscal 1977 through fiscal 1982 are analyzed.

[2] The model was developed by Dr. James A. Richardson of LSU, and used to develop the Legislative Fiscal Office revenue forecast for 1982-83.

[3] An income elasticity is the percentage change in tax revenues given a 1 percent change in income.

[4] The $32/bbl price approximates the effective tax price after various adjustments are made. In practice, this price is usually very close to the "posted price" or price that refineries will pay for non-contract crude oil. More optimistic assumptions about oil prices were also tested, using $33/bbl in 1982-83 and increases equal to the inflation rate; however, the net increase in revenues was insufficient to alter the projected trends.

[5] This assumption need not imply that all state services increase at the same rate. Changing priorities may mean that some services grow rapidly while other decline.

[6] The Louisiana Investment Fund for Enhancement (LIFE) was established in 1981 to preserve a portion of oil revenue windfalls for future generations. The relevant statutes provided a formula in which oil price increases would increase LIFE deposits, while inflation would reduce the windfall going to this fund.

WILLIAM G. BLACK is a legislative economist with the Louisiana Legislative Fiscal Office at Baton Rouge. He wishes to acknowledge Dr. James A. Richardson of the LSU Department of Economics for "his invaluable advice" for both this paper and a more comprehensive version presented to the Louisiana Joint Legislative Committee on the Budget in September.

☐

BOOK CORNER

Economics in Plain English

Economics Explained by Robert Heilbroner and Lester Thurow (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1982), 256 pp., $12.95 (hardcover).

Economists Robert Heilbroner of the New School for Social Research and Lester Thurow of MIT's Sloan School of Management wrote *Economics Explained* in the belief that many people "want to understand the nature of the economic forces that are upsetting their lives." Their book is different from other economics books for the general reader, however, in that it lays out the groundwork of economic theory prior to delving into problems such as inflation and unemployment. The general format of the book is similar to many standard economics textbooks, but Heilbroner and Thurow succeed in making it easier to read and substantially more candid and thought-provoking than any textbook.

Part I of the book introduces the capitalist system—how it evolved and where it now stands. In Part II the authors discuss the big economic picture—the large flows of household savings, business investment, and government spending. This setting lays the groundwork for their discussions of how money works, what causes inflation, and why American productivity is lower today than that of most other advanced nations. Part III deals with the individual parts of the big picture—the determination of prices in individual markets and how markets sometimes fail. Topics in international economics ranging from the meaning and consequences of a falling dollar to the activities of multinational firms are examined in Part IV. The concluding chapter is a stimulating analysis of where the major world economies are heading.

The authors do an admirable job of advancing different, often controversial, solutions to our economic woes rather than simply advancing their preferred solution. Despite the necessity for simplifications in the book, the theme that "there are no simple solutions to these economic and political challenges" is stressed. While *Economics Explained* may be especially appealing to members of the business community and decision makers in government, the book achieves its goal of reaching out to any individual with a healthy curiosity about how the economic world functions.

—Adrienne McElwain

Taxes, Reaganomics, and The Economy: A Selection of Recent U.S. Government Publications

- U.S., Congress, Joint Economic Committee, *Economic Analysis of the Reagan Program for Economic Recovery* (Washington, D.C.: U.S. Government Printing Office, 1982), 33pp., $2.50 (stock no. 052-070-05574-0).

Prepared for the U.S. Congress's Joint Economic Committee, this staff study analyzes the Reagan Administration's economic recovery program which is intended to include the long-run effects of (1) increases in employment real output, real wages, real savings, and real investment; (2) a reduction in money demand; (3) a reduction in nominal interest rates; and (4) a reduction in the price level. An interesting comparison of the Reagan economic program with that of the Kennedy administration is included.

- U.S., Congress, Budget Office, *Prospects for Economic Recovery* (Washington, D.C.: U.S. Government Printing Office, 1982), 120 pp., $6.00 (stock no. 052-070-05676-2).

Economic and budget projections from the Congressional Budget Office and the Office of the President are discussed. Individual chapters review recent economic developments, federal monetary and fiscal policy, short-range (1982-1983) and long-range (1984-1986) forecasts, impediments to economic growth, and the economic effects of federal budget deficits.

- U.S., Congress, Joint Economic Committee, *Regional and Urban Impacts of the Administration's Budget and Tax Proposals, A Study* (Washington, D.C.: U.S. Government Printing Office 1981), 117 pp., $4.50 (stock no. 052-070-05617-7).

Prepared by Marshal Kaplan, this study evaluates the impact of President Reagan's budget and tax proposals on U.S. cities by examining the seven case studies that were conducted in Albuquerque, Baltimore, Boston, Dallas, Denver, Detroit, and Milwaukee.

- U.S., Internal Revenue Service, *Tax Haven Information Book* (Washington, D.C.: Author, 1982), 124 pp., not for sale, but available for use in most federal depository libraries.

Prepared for use of IRS agents, this publication discusses the tax haven status of twenty-eight foreign countries. A variety of information of interest to investors is provided. The publication concentrates on the availability of information about business and legal involvement in each country.

- *Taxes and Taxation* Washington, D.C.: U.S. Government Printing Office, 1981), 16 pp., free (stock no. 021-195-00111-8).

A bibliography of tax-related publications available for sale by the U.S. Government Printing Office.

- U.S., Congress, Budget Office, *The Tax Treatment of Homeownership: Issues and Options* (Washington, D.C.: U.S. Government Printing Office, 1981), 97 pp., $5.50 (stock no. 052-070-05641-0).

This document includes a discussion of the tax benefits available to homeowners resulting from current federal tax laws. Prepared by the Congressional Budget Office, the publication presents possible tax changes and their effects on the federal tax system, housing supply, and the American homeowner. One of the most interesting potential changes mentioned would provide an income tax deduction for renters.

- U.S., Congress, Joint Economic Committee, *Simulation of the Economic Impact of Tax Exempt Home Mortgage Savings Accounts: A Staff Study* (Washington, D.C.: U.S. Government Printing Office, 1981), 12 pp., $2.25 (stock no. 052-070-05589-8).

Using the Wharton Econometric Model, this study evaluates the micro-economic impact of a proposed change in the savings incentives available to the residential mortgage industry. The simulation excludes taxes on interest earned on home mortgage-dedicated savings accounts. The report concludes that the tax exclusion embodied in the proposal would provide a boom for the housing industry.

—Milt Ternberg

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RESEARCH NOTES

Material Requirements Planning Developed by LSU Researcher

Research on the "*Effects of Varying the Update Interval on Material Requirements Planning*," is being conducted by assistant professor **Avijit Banerjee** of the Quantitative Business Analysis Department through a series of simulation experiments aimed at improving production scheduling and inventory control.

Material requirements planning (MRP) is a technique for inventory control used in discrete, multistage, multiproduce production systems. In such systems the various inventory items (e.g., raw materials, purchased parts and finished products) are arranged in a hierarchy consisting of several levels. Due to the environmental uncertainties, discrete production batches, and the structures of the various products, the demands or requirements of the items at the lower levels of this inventory hierarchy exhibit irregular "iumpy" patterns that are difficult, if not impossible, to describe in terms of known probability distributions. For this reason traditional inventory control methods are not applicable for such items, and MRP has been suggested as a more effective alternative.

Requirements plans for the manufacture and purchase of the inventory items resulting from an MRP process can be kept current in two different ways. One method completely revises and updates all plans periodically, resulting in what is known as regenerative MRP systems. Net change MRP, on the other hand, is essentially an on-line system where only changes and transactions are entered whenever they occur and the plans for only the affected items are updated. Banerjee's study is concerned primarily with the update interval of regenerative MRP processes.

Recent research in this area has largely emphasized the issue of lot sizing for "lumpy" demand items and a number of dynamic lot sizing algorithms, attempting to minimize inventory-related costs, have been developed. One major problem resulting from such algorithms is system "nervousness." What happens is that a relatively small change in the demand for a final product can lead to large amounts of rescheduling at lower levels of the product structure. This can occur every time the system is regenerated since the lot-sizing algorithm in use recomputes the schedule over the entire planning horizon. Thus, frequent rescheduling from excessive nervousness can seriously disrupt smooth operation of the system.

It is suggested that the ill effects of nervousness can, at least to some extent, be overcome by increasing the update interval of the planning process. But doing so may render the system less sensitive to changes and transactions that occur between regenerations and reduce its capacity to cope with environmental uncertainties. In other words, there is a distinct tradeoff between the costs of nervousness and providing customer service. Moreover, the effects of reduced nervousness on a number of other key performance criteria, such as average inventory levels, number of production setups and purchase orders, etc. are unknown at this time. Thus, the important design issue of selecting an appropriate update interval for an MRP system is the major focus of this investigation.

The objectives of this study are being pursued through a computer simulation model of a multistage, multiproduct production system, due to the difficulties encountered in the analytical modeling of such complex systems. The observed effects of varying the MRP regeneration interval on system nervousness and other performance measures under different environmental conditions obtained from the simulation experiments are analyzed carefully. Finally, attempts are made in recommending to decision makers the proper use of the update interval as a controllable variable in the effective design of MRP systems.

Recent changes in U.S. tax laws have brought with them many opportunities and challenges for taxpayers who wish to lower their tax bills. Proper tax planning is necessary for individuals to make the most of these new opportunities to avoid pitfalls. This article is a guide to those desiring to formulate such plans of tax-reduction.

Much has been discussed about the federal Economic Recovery Tax Act of 1981 (ERTA) and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Changes in tax laws often require action by taxpayers to take advantage of the new laws and any opportunities for tax minimization. Proper planning, while not guaranteeing tax minimization, increases the chance that any required action will be taken at the appropriate time and in a manner consistent with a taxpayer's long-range strategy for lowering taxes. A sufficiently flexible plan also allows alteration of planned action, should future legislation provide new opportunities.

The purpose of this discussion is to provide a general approach to tax planning, with emphasis on recent changes in the law. No single plan can be recommended for all taxpayers, since non-tax considerations often out-weigh the desire for tax reduction. In addition, the composition of assets, income and other items may affect the plan. However, since all taxpayers are subject to the same tax laws, a general knowledge of them, including the recently enacted provisions, should aid in formulating a plan.

The Planning Process

One of the first steps in the planning process is to identify potential areas of tax reduction. This requires some knowledge of the applicable tax laws and the transactions to which they apply. A good way to begin the process is to estimate the amount and nature of all income and deductions for the current, and, to the extent possible, future years. Each item then can be examined to determine if some tax planning technique can be applied to reduce taxes.

Tax planners use two primary concepts in examining a taxpayer's financial picture—restructuring and deferral. Some transactions may be structured in different ways, with each way producing substantially the same result from a non-tax standpoint; however, from a tax perspective, each could have widely varying tax consequences. Professional tax advice, therefore, is usually appropriate *before* a transaction is completed, if the taxpayer is not aware of all alternatives. Undesirable tax consequences are frequently unavoidable after action has been taken by a taxpayer.

The second major concept used by tax planners, tax deferral, recognizes individuals are generally better off paying taxes in a later year than in the current year, because of the time value of money. This is not true in all cases, however, and one should be careful not to take actions resulting in short-term benefit, to the detriment of the individual's total financial position.

For example, deferring income into a subsequent year may not be beneficial, if the taxpayer is in a higher tax bracket in later years. One might be better off by paying the tax in the current year, when taxable income is low. This example illustrates the importance of comprehensive tax planning, instead of a transaction-by-transaction approach.

Deferral of Taxes

Tax deferral will be particularly important in 1982 and subsequent years. The ERTA reduced tax rates by approximately 23 percent over a four-year period. This means a taxpayer able to defer his taxes could realize a *permanent* tax savings. That is, not only would the taxpayer have the use of money that otherwise currently would be used to pay taxes, but the amount of tax, when finally paid, would be lower. After 1984 tax rates will be adjusted for inflation.

Most taxpayers use the cash method of accounting, in which income generally is recognized in the year received, and expenses are deducted in the year paid. This method allows a taxpayer flexibility in controlling tax liability to the extent he can control the timing of income receipts and expense payments. Some items of income, such as rent and fees for services, may be deferred by delaying the billing of these items.

The timing of payment for deductible expenses is often important. Many expenses can be prepaid in years for which a lower taxable income is sought. For example, early payment of the final installment of a taxpayer's state income tax shifts federal tax liability to a later year. Other expenses are subjected to certain limitations, or minimum amounts before they are allowed as deductions. For example, deductions for contributions to a public charity cannot exceed 50 percent of adjusted gross income. Medical expenses are deductible in 1982 only to the extent they exceed 3 percent of adjusted gross income.

TEFRA raised, however, the floor on medical expenses to 5 percent after 1982. Because of this change, proper timing of payment for medical expenses may increase the resulting tax benefit. If medical expenses are likely to reach the 3 percent floor in 1982, all medical expenses should then be paid (or prepaid) in 1982. Waiting to pay these bills until 1983 may result in a loss of their deductibility, since the deduction floor will be higher then.

Another method of deferring taxes is the installment sales method of reporting gain on the sale of property. In general, this method of reporting income may be used if property is disposed of in a transaction deferring receipt of some sales proceeds until after the close of the taxable year. This general rule does not apply to inventory and other property held by dealers.

Tax Shelters

A tax shelter, generally, is an in-

Tax Planning in Light of Recent Legal Changes

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vestment structured to take advantage of benefits available under the tax law. ERTA and TEFRA include provisions that will affect the attractiveness of some tax-sheltered investments.

Most tax-sheltered investments provide substantial current deductions that offset ordinary income from other sources. This causes a deferral of tax liability. In some cases, any income generated by the investment is eventually taxed at capital-gain rates, or at a time when the taxpayer is in a lower tax bracket.

Tax shelters should be evaluated in the same way as any other investment. The investment should be economically sound in light of the risks and potential rewards. Most tax-sheltered investments are long-term, and not readily marketable.

Real estate shelters were a principal beneficiary of ERTA. A 15-year write-off, at accelerated rates, was provided for real estate under the Accelerated Cost Recovery System (ACRS). This new depreciation system, together with liberalized investment credit provisions and increased tax credits for rehabilitation expenditures, created new opportunities for tax-sheltered investments.

ACRS benefits have been reduced substantially by TEFRA. After 1982, taxpayers are required to reduce the basis of depreciable assets by one-half the amount of the regular and energy investment tax credits (including the credit for certified historic structures).

This lower basis must be used to compute depreciation deductions, and to determine gain or loss when the asset is sold. A 2 percent investment credit reduction may be elected, in lieu of making this basis adjustment. In addition to these changes for depreciable property, TEFRA repeals the further acceleration of ACRS rates for some classes of property that were to be applied to property placed in service after 1984.

One tax-shelter-limiting provision of ERTA was the extension of the at-risk rules to investment credit benefits. The at-risk rules generally act to limit any personal liability assumed by the investor. Thus, taxpayers are not able to take the investment credit on property purchased with nonrecourse debt. The at-risk rules do not apply to real estate ventures.

The Internal Revenue Service has intensified its programs of examining tax shelters, and is aggressively attacking many so-called abusive shelters. Taxpayers should seek professional tax advice to evaluate the risks associated with specific tax-sheltered investments.

Capital Gain and Loss Planning

The discussion here will focus on security transactions, but the principles discussed apply to other assets, such as real estate held as an investment, as well. Capital gains and losses may be either long- or short-term. Generally, an asset must be held for more than one year to qualify for long-term treatment. Net long-term capital gains qualify for an exclusion of 60 percent of the excess of long-term capital gains over short-term capital losses. With the prior increase in the capital gain exclusion from 50 to 60 percent, many investors may benefit from a change in investment strategy to emphasize asset appreciation, rather than investment yield.

Up to $3,000 of a net loss is deductible in the current year. The remaining loss can be carried over to subsequent years. In addition, a net, long-term loss reduces taxable income on a two-for-one basis. For example, $6,000 of long-term capital loss would reduce taxable income by only $3,000. Note that long-term losses are most advantageously used against short-term gains, but first must be used to reduce any long-term gains. A desire to efficiently utilize losses may not be consistent with market judgment. For example, a portfolio may contain securities with unrealized losses that could be sold to reduce taxes, but the taxpayer may wish to hold the securities for investment reasons. Taxpayers should be aware, however, that a sale at a loss with a subsequent purchase of essential identical securities within 30 days would result in a *wash sale*, and no deduction for the loss would be allowed. There are ways of accomplishing both goals. One is to sell the securities at a loss and purchase similar, but not identical, securities in the same industry; another is to sell the securities and repurchase them after 30 days.

Estate and Gift Tax Changes

Recent changes in the estate and gift provisions will require individuals to change or revise their current estate planning strategies. Some of the more important changes are discussed below.

CHANGES IN THE UNIFIED CREDIT

YEAR OF DEATH	UNIFIED CREDIT	SIZE OF ESTATE EXEMPT FROM TAX
1981	$ 47,000	$175,625
1982	62,800	225,000
1983	79,300	275,000
1984	96,300	325,000
1985	121,800	400,000
1986	155,800	500,000
1987 and thereafter	192,800	600,000

Exhibit 1

CHANGES IN THE RATE OF TAX FOR GIFTS AND ESTATES

FOR DECENDENTS DYING AND GIFTS MADE IN	THE MAXIMUM RATE WILL BE
1982	65% for transfers in excess of $4,000,000
1983	60% for transfers in excess of $3,500,000
1984	55% for transfers in excess of $3,000,000
1985 and thereafter	50% for transfers in excess of $2,500,000

Exhibit 2

ERTA provided for an increase in the unified gift and state tax credit and the estate tax filing requirements to reflect the increased unified credit *(Exhibit 1)* This increase in the size of the unified credit, together with other changes in the law, results in an estate and gift tax system which allows large amounts of property to be transferred between individuals, free of any tax.

ERTA also reduced the maximum unified estate and gift rate from 70 percent to 50 percent over a four-year period *(Exhibit 2)*. This means that if any part of an estate or gift is taxed, the tax rate will be lower than before ERTA was enacted.

For all transfers by gift or inheritance after 1981, the monetary ceiling on the gift and estate tax marital deduction has been eliminated. This means unlimited amounts of property can be transferred between spouses, free of gift or estate taxes. One point of particular importance to Louisianians is that ERTA removed the provisions of the prior law barring gift and estate marital deductions for transfers of community property between spouses.

Substantial changes in the gift and estate tax provisions mean all current wills should be reviewed to see how they are affected. In many cases, simple "his and her" wills may now be advisable because of the higher credits and unlimited marital deduction. Planning for effective utilization of the unified credit, and providing for educational and other needs of children after the death of one spouse, however, could require more complex wills.

Another significant provision in ERTA increased the gift tax annual exclusion to $10,000 per donee, and stipulated that payment of school tuition or medical care is not treated as a gift. Spouses may elect to split gifts for a total of $20,000 annual exclusion per donee. This provision can be used to further reduce the amount of an estate subjected to taxation.

A detailed discussion of all areas affected by ERTA and TEFRA is beyond the scope of this duscussion; therefore, the following is a summary of many of the provisions which changed the prior law. These changes should be considered by taxpayers as they develop tax-reduction plans.

Rate Changes

Individual income tax rates will be reduced by some 23 percent, phased in over a four-year period.

The top tax bracket will drop from 70 percent to 50 percent, beginning in 1982. This reduction eliminates the max-tax computation after 1981.

Individual income tax brackets, personal exemptions and zero bracket amounts will be indexed to prevent inflation-created taxes. Indexing will begin after 1984, and will be adjusted for inflation.

A maximum 20 percent rate for sales or exchanges, will apply to long-term capital gains after June 9, 1981.

Itemized Deductions

Medical expenses may be deducted only to the extent they exceed 5 percent of adjusted gross income, beginning in 1983. Under prior law, medical expenses had to exceed 3 percent. Also, one-half of all medical premiums paid, up to $150, will no longer be deductible without regard to the percentage floor. In 1984, the present separate 1 percent floor on drugs will be eliminated.

Taxpayers can deduct personal casualty and theft losses, after 1982, only to the extent that each loss exceeds $100, and the sum of these losses (as reduced by the $100) exceeds 10 percent of adjusted gross income. No floor exists under present law.

Non-itemizers will be able to deduct charitable contributions. The gradual phase-in of this allowance begins in 1982.

Compliance Provisions

Taxes will be withheld on dividends and interest payments made after June 30, 1983. The withholding rate will be a flat 10 percent.

Interest and penalty rates will be redetermined each September at 100 percent of the average predominant prime rate. This rate will be effective for the following calendar year.

Sales and Exchanges

Taxpayers have two years, before and after the sale and exchange of residences, to replace the residence and defer recognition of, or rollover, any gain on the sale. In addition, qualified taxpayers more than 55 years of age may elect to exclude $125,000 of the gain on the sale of a personal residence.

A new incentive stock option allows an employee to avoid current income at the time of exercise and to obtain long-term capital gain on the sale of the option stock. In some situations, previously issued options may qualify for the new treatment.

Deductions for losses from regulated futures contract straddles, as well as other straddles, have been severely limited.

Gross Income

Married couples filing joint returns are allowed a deduction from gross income equal to 10 percent (5 percent for 1982) of the lesser of $30,000, or the earned income of the spouse with the lower earned income.

Beginning in 1982, U.S. citizens abroad, who meet certain residency requirements, may elect to exclude up to $75,000 of foreign earned income. This amount is increased by $5,000 per year over the next four years to a maximum of $95,000 in 1986. In addition, housing expenses over a base amount can be deducted or excluded from income.

Employer-provided expenses for dependent care assistance under a written non-discriminatory plan will be excluded from an employee's gross income, beginning in 1982.

Interest and Dividends

Savings certificates (purchased after September 30, 1981 and before January 1, 1983) may qualify for a $1,000 ($2,000 on a joint return) lifetime interest exclusion.

The $200 ($400 on a joint return) dividend and interest exclusion was repealed after 1981, and replaced by a $100 ($200 joint) dividend exclusion. A maximum net interest exclusion of $450 ($900 on a joint return) also begins in 1985.

Business Provisions

Qualified public utilities are allowed to establish dividend reinvestment plans. Qualified shareholders may elect to exclude $750 a year ($1,500 on a joint return) of dividends reinvested, effective for calendar years 1982 through 1985.

In the case of corporate shareholders, partial liquidations have been eliminated. All distributions to corporate shareholders are to be tested for exchange treatment at the shareholder level under the redemption provisions. For noncorporate shareholders, the concept of a partial liquidation is re-

HIGHLIGHTS OF RECENT CHANGES

- Repeal of portions of the accelerated cost recovery system
- More taxpayer compliance provisions
- Cutbacks in individual deductions
- Liberalized pension provisions for some individuals but more stringent requirements for many businesses
- Changes in the way the Investment Credit affects deductions under ACRS
- Leasing provisions curtailed
- Corporate reorganization laws changed

tained, with some modification. Substantial changes also have been made in other areas of the corporate reorganization laws.

TEFRA provides a 15 percent reduction in eight corporate tax preferences. It also adjusts the corporate miminum tax to prevent the combination of the corporate minimum tax and the 15 percent cutback from reducing the tax benefit at the margin for taxpayers now subject to the minimum tax. This is done by subjecting only 71.6 percent of certain preferences to the minimum tax.

To avoid an underpayment of estimated taxes after 1982, corporations must pay 90 percent of their estimated tax liabilities, instead of the present 80 percent. Some exceptions to the estimated tax payment requirements have been repealed.

Safe-harbor leasing is curtailed significantly, and repealed after 1983. Traditional leasing will be liberalized, beginning in 1984.

Corporations must begin in 1983 to capitalize and amortize construction period interest and taxes for nonresidential real property. In addition, the Treasury has been directed to modify its regulations restricting the use of the completed contract method of accounting.

New Windfall Profit Tax Rules provide for a gradual reduction in tax on newly discovered oil; an independent producer's stripper oil exemption after 1982; and an increase in the 1981 royalty-owner credit from $1,000 to $2,500, with two-barrels-per-day exemption after 1981 (three-barrels-per-day in 1985).

Pensions and Annuities

A partial roll-over of an individual retirement account (IRA) will qualify for tax-free treatment after 1982. Under prior law, an individual retirement could be rolled-over to another IRA only if the entire IRA was rolled-over.

The IRA provisions have been greatly liberalized, allowing a maximum $2,000 ($2,250 for a spousal IRA) contribution, and permitting deductible contributions by individuals already covered by a qualified retirement plan.

Keogh plan *(H.R. 10)* contributions have been increased to the lesser of either 15 percent of earned income, or $15,000 (up from $7,500). The same increases apply to contributions to a simplified employee pension plan (SEP).

TEFRA will change the overall limits on contributions and benefits available for an employee under qualified pension plans, beginning in 1983. For defined contribution plans, the maximum dollar limit on annual employer additions for an employee will decrease from $45,475 to $30,000; the 25-percent-of-compensation limit will be retained. For defined benefit plans, the maximum dollar limit on employer-derived annual benefits shall decrease from $136,425 to $90,000; the 100-percent-of-compensation limit will be retained. The act also attempts to narrow the gap between corporate and self-employed plans, and further restricts loan transactions.

Other

Estate and gift tax laws are substantially changed, being generally effective for decedents dying, and gifts made, since 1981.

The freeze on issuance of IRS regulations in the fringe benefit area, which was due to expire on May 31, 1981, has been extended through December 31, 1983.

The 15 percent "add-on" minimum tax for individuals has been repealed for tax years starting in 1983. Concurrently, the base of the alternative minimum tax, which is paid only if it exceeds an individual's regular tax, will be expanded. This tax is imposed at a rate of 20 percent on minimum taxable income in excess of a statutory exemption of $30,000 ($40,000 for joint returns).

The child care credit available to working spouses was increased, beginning in 1982.

The $100 threshold exemption from filing individual estimated tax payments has been increased $100 a year to a maximum of $500 over a four-year period, beginning in 1982.

Recent changes in U.S. tax laws present opportunities and challenges for individuals seeking to reduce the amount of taxes they pay, but taxpayers cannot hope to make the most of these changes without implementing some form of tax planning.

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NATIONAL NEWS

Government Employment Falls

State and local government employment dropped in 1981 for the first time since World War II, according to the U.S. Commerce Department's Census Bureau.

The bureau says annual increases began in 1945 when state and local government workers totaled 3.2 million. Employment in 1980 reached 13.3 million, then dropped last year to 13.1 million. Much of the decline is attributed to the ending of public service employment portions of the Comprehensive Employment and Training Act on Oct. 1, 1981.

Federal civilian employment also dropped in 1981, but not for the first time. It peaked at near 3.4 million during World War II, receded to 2.0 million in 1947, then rose to 2.5 million in 1951 and to 3.0 million by 1967. Since then it has remained near its present level of about 2.9 million.

Federal civilian employment decreased from 1980 to 1981 by 34,000, or 1.2 percent. State employment dropped by 27,000, or .7 percent, to a total of 3.7 million, and local governments lost 185,000, or 1.9 percent, down to 9.4 million. Total government employment dropped 1.5 percent between 1980 and 1981 to 16 million. In 1944, the total was 6.5 million.

Drug Store Sales Up in 1982

Shoppers watched their pennies in 1982, but they spent more of them in drug stores than they did the year before, according to a nationwide survey by Drug Store News, the industry newspaper.

The average consumer now spends between $15 and $16 on each shopping trip to the local drug store vs. $14 a year ago, the study points out. However, impulse buying is down. In 1981, only 14 percent admitted they did not make unplanned purchases. This year, the urge to save and count pennies pushed 42 percent to shun non-planned purchases—indicating a growing cautiousness in the general consumer mood.

Anti-Cancer Drug Research

Hybritech Incorporated of San Diego has received a contract from the National Cancer Institute (NCI) to develop and produce for clinical trials anti-cancer agents that incorporate monoclonal antibodies linked to chemotherapeutic drugs, toxins and radioisotopes.

Under the three-year contract, Hybritech will use chemical procedures to couple anti-cancer agents to monoclonal antibodies directed against molecules found on human tumor cells. Hybritech will determine experimentally how to make the new compounds, evaluate their effectiveness in killing cancer cells, scale up production of the most successful drug candidates, and will supply to the NCI quantities sufficient for preliminary clinical trials in a form suitable as a human-use product.

Antibodies are molecules produced by the immune system to defend against invasion by infectious diseases or to stop the growth of tumor cells. Monoclonal antibodies are a new form of antibody that is produced in test tubes through a type of genetic engineering, and permits large-scale production of highly pure antibodies which will react with cancer cells, but will not react with normal tissues.

The objective of the program is to determine if the therapeutic capacity of these monoclonal antibodies can be enhanced by combining them with other cell-killing agents such as diptheria and ricin toxins, methotrexate, chlorambucil, gelonin, and radioisotopes. The program will also determine if the often highly toxic side effects of injecting these cell-killing agents are reduced by coupling them to antibodies which avoid normal tissues and concentrate at the tumor site.

Audits on the Same Issue Avoided by IRS

The Internal Revenue Service has set a policy of avoiding audits on the same issue year after year. If an item is questioned and examined by the IRS, the chances are slim that citizens will be reaudited if there were no changes or the assessment attributable to the issues was nominal. It is, of course, the prerogative of the IRS as to whether or not it chooses to examine any item.

Speaking of audits and auditors, the IRS uses two kinds—revenue agents from the Examination Division and special agents from the Criminal Division. The difference? Revenue agents handle routine examinations of ordinary expenses, while special agents usually investigate suspected criminal violations of the tax laws.

The IRS says it is not uncommon for two agents, both revenue and criminal, to make joint investigations, when evidence indicates a possible criminal prosecution. Convictions of such violations can be serious, with maximum penalties including five-year prison terms, back taxes and interest, and fines of up to $10,000 per year.

Special agents are required to identify themselves and to advise subjects of their rights to remain silent and legal representation. Certainly no records should be turned over, or statements made, without benefit of consul. □

Richard A. White and Michael J. R. Hoffman

The Effect of Recent Tax Legislation on Investments in Realty Property

This paper examines the effect of changes in the tax law with respect to investments in several types of realty property as a result of ERTA and TEFRA. The relevant changes are discussed and then analyzed by means of a simulation of a hypothetical investment situation. The investment simulation confirms that the changes in the law increased the discounted tax benefits for all types of realty property examined. However, the increase in tax benefits is not uniform across all types of property.

Congress has recently passed two important pieces of legislation affecting the tax treatment of realty property investments. The purpose of these two laws is to amend the relevant sections of the *Internal Revenue Code of 1954* (IRC); thus, neither is intended to stand alone, but rather is to be incorporated into the existing IRC body of tax law.

The Economic Recovery Tax Act of 1981[1] (ERTA) provides a wide range of tax benefits which includes lowering tax rates; increasing income exclusions, deductions and credits; and accelerating business deductions of the cost of long-lived property. Investors in realty property particularly benefit from the new law. The Tax Equity and Fiscal Responsibility Tax Act of 1982[2] (TEFRA), signed into law a year after ERTA, includes a provision affecting the tax treatment of rehabilitation expenditures made with respect to certified historic structures. (Except where indicated otherwise, the property affected by ERTA and TEFRA is that which is used in the production of income. Those provisions which affect personal use property are identified as such.)

In general, two major changes in the law have had significant impact on all business investments in realty property. First, the maximum tax rate on investment income is reduced from 70 percent to 50 percent. As a result, the income tax on rental income and gains derived from the sale of realty property has been reduced considerably for taxpayers in higher tax brackets.

Second, beginning with realty property placed in service in 1981, the manner in which the cost of such property may be depreciated has been changed significantly. The concepts of estimated useful life and salvage value are no longer valid. The distinction between new and used property also has been eliminated for tax purposes.

ERTA permits the cost of most realty property to be depreciated over a 15-year period, using a method approximating the 175-percent declining balance method, switching to straight-line at the optimal point. This new system is called the accelerated cost recovery system (ACRS).[3]

The straight-line method spreads the cost of the property evenly over the recovery period (e.g., a 15-year recovery period permits the reduction of 1/15 of the cost of the property annually). The 175-percent declining balance method permits larger amounts to be deducted earlier in the life of the property. In this way the tax benefits of the depreciation of the cost of long-lived property are realized more quickly. Therefore, taking the time value of money into account, the faster depreciation allowances increase the *value* (discounted tax benefits) of depreciation tax savings.

Depreciation under ACRS is not mandatory. Those taxpayers who wish to *save* some of their depreciation deductions for later, more profitable years may elect to use the straight-line method over a 15-, 35-, or 45-year period.

Realty Property Rehabilitation

The Tax Reform Act of 1976 and the Revenue Act of 1978 introduced incentive provisions intended to encourage rehabilitations of vertified historic structures and older commercial buildings. The 1976 Act allowed the taxpayer to elect to amortize capital expenditures for certified rehabilitation of an historic structure over a five-year period. The 1978 Act provided a 10-percent investment tax credit for expenditures for rehabilitation of a qualified building. A credit is a direct reduction of income tax liability. Taxpayers rehabilitating historic structures, beginning in 1978, had the options of amortizing the cost of the rehabilitation over five years, or of claiming the investment tax credit and depreciating the rehabilitation costs over the useful life of the property.

ERTA has made both favorable and

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unfavorable changes to these incentive provisions. Effective in 1982, the new provision replaces the 10-percent investment tax credit for qualified rehabilitation expenditures with a three-tiered credit—15 percent for 30-year-old buildings, 20 percent for 40-year-old buildings and 25 percent for certified historic structures.[4]

Claiming credit for rehabilitation expenditures results in reduction of the amount eligible for depreciation. The basis for depreciation of 30- and 40-year-old buildings is reduced by the entire credit claimed. The basis for depreciation of certified historic structures is reduced by one-half of the credit claimed.

Under ERTA there was no reduction of basis for certified historic structures; however, the reduction was mandated under TEFRA. In the event the rehabilitated property is disposed of before holding it five full years, 20 percent of the claimed credit must be paid back for each year, or fraction thereof, and the period of use falls short of the required years. The amount of recapture increases the property's adjusted basis. Adjusted basis is normally defined as acquisition cost, plus the cost of improvements, minus accumulated depreciation.

Except for certified historic structures, the buildings must be nonresidential realty property. This includes office buildings, hotels, warehouses, stores and factories, but excludes apartments or other types of residential property. A certified historic structure may be residential or nonresidential property, but must be listed either as historic in the *National Register*, or located in a registered historical district and be certified by the secretary of the interior as being of historic significance.[5]

Qualified rehabilitation expenditures must meet three major requirements.[6] First, except for certified historic structures, the building must be at least 30 years old. Second, at least 75 percent of the existing walls must be retained in place as external walls in the rehabilitation process. Third, the building must be substantially rehabilitated. This is operationally defined as qualified rehabilitation expenditures incurred during a 24-month period, ending on the last day of the taxable year, exceeding the greater of (1) the taxpayer's adjusted basis of the property at the beginning of the 24-month period, or (2) $5,000.

Building acquisition or enlargement costs are specifically excluded as rehabilitation expenditures. In addition, rehabilitation expenditures do not include expenditures with respect to which the straight-line method of depreciation has not been elected.

Proposed U.S. Treasury regulations define rehabilitation expenditures as renovation, restoration or reconstruction costs.[7] For example, capital expenditures for the removal of existing interior walls, plumbing, electrical wiring and flooring qualify, whereas expenses for sidewalks, parking lots and landscaping do not.

Favorable Changes

Investment tax credit rate increases, combined with the shorter period over which the expenditures can be depreciated, should increase the discounted tax savings for rehabilitation expenditures of 30- and 40-year-old realty property. Not so clear is whether the 25-percent credit for certified historic rehabilitation yields a greater discounted tax benefit than the five-year amortization provision permitted under prior law.

Prior law required a 20-year waiting period between rehabilitation expenditures. That is, if a taxpayer claimed a credit for rehabilitation expenditures, additional credits for rehabilitation costs for the same buildings were not permitted until 20 years later. Consequently, taxpayers may have elected not to claim rehabilitation credits to which they were entitled because they anticipated even larger rehabilitation expenditures and greater credits in future years. The new law has eliminated this waiting period.

Prior law required rehabilitation expenditures to have at least a five-year useful life. The elimination of this requirement should have little impact.

Unfavorable Changes

The current definition of substantial rehabilitation applies to all qualified rehabilitation costs; whereas, under prior law, it applied only to rehabilitations of certified historic structures. Because all costs have to exceed the property's adjusted basis, many previously qualified expenditures may fail to qualify under the new law. The taxpayer is faced with a potential paradox at the initial acquisition of the rehabilitation property. On one hand, expenditures in a 24-month period must exceed the property's basis; while, on the other, at least 75 percent of the existing external walls must be retained. To help overcome this constraint, a special rule for phased rehabilitation allows the taxpayer to accumulate the rehabilitation expenditures over 60-months, instead of the 24-month period. This option requires that the phases be specified in architectural plans prior to the initial rehabilitation.

The age requirement has been increased from 20 years to 30 years. If rehabilitation of a building 20- to 29-years-old began in 1981, the old law still applies. However, if the expenditures, which began in 1981, are in connection with the rehabilitation of an historic building, the new law applies to all expenditures incurred after that year.

The taxpayers's election to amortize rehabilitation costs of certified historic buildings over five years has been repealed, effective in 1982. Also, in the event of a separate rehabilitation of a major portion of a building, it can no longer be treated as a separate building.

Expenditures incurred by a lessee of a building will not qualify as rehabilitation expenditures unless the remaining term of the lease, after rehabilitation, is at least 15 years. Prior law did not specify a minimum lease term.

Realty Property

Prior to ERTA and TEFRA, the cost of new nonresidential realty property could be depreciated over its estimated useful life, using either a declining balance method, not to exceed 150 percent, or the straight-line method. On the other hand, residential rental property could be depreciated by using a declining balance method, not to exceed 200 percent, or the straight-line method.

Upon disposition of property, gain is determined by subtracting the property's adjusted basis from the net selling price; however, some of the gain may not qualify for preferential capital gains treatment, but rather, will be classified as ordinary income. Taxation of gain as ordinary income is known as depreciation recapture. The classification of gain as ordinary income, rather than long-term capital gain, has a significant effect on the seller's tax liability. Each dollar of ordinary income increases taxable income by a dollar, while each dollar of long-term capital gain increases taxable income by only 40 cents.

For both residential rental and nonresidential property placed into service prior to 1981, the definition of depreciation recapture is the total amount of depreciation taken, less the amount of depreciation that would have been allowed under the straight-line method of depreciation. Therefore, if the 150-percent declining method was used, some depreciation would be subject to recapture should the property be held less than the full period over which the asset was being depreciated. Nevertheless, taxpayers generally elected to use the most accelerated depreciation method allowable, because the extra deductions yield immediate tax savings at the expense of the future tax costs.

The accelerated cost recovery system provisions in ERTA permit the costs of most types of realty property to be depreciated over a 15-year period, using a method which approximates the 175-percent declining balance method switching to straight-line.

If the ACRS provisions are used,

WASHINGTON

under ERTA's revised depreciation recapture rules for nonresidential realty property, gains on the disposal of nonresidential realty property will be taxed as ordinary income to the extent of *all* of the depreciation taken to date, not simply the excess over straight-line.[8] If the straight-line method of depreciation is adopted, consistent with prior law, no depreciation recapture will result. The depreciation recapture potential for residential rental realty property has not been changed by either ERTA or TEFRA.

Favorable Changes

The introduction of ACRS sharply increased the tax benefits to be derived from the depreciation of the cost of realty property. Under prior law, cost was depreciated over the useful life of the property, which for new realty property could range from 40 to 60 years. Consequently, as long as 60 years could be required to fully recover the cost of realty property. The 15-year ACRS recovery period permits costs to be recovered much more quickly. This does not mean the total amount of the deductions is changing, but rather, the timing of those deductions is accelerated. Therefore, taking the time value of money into account, the discounted tax benefits associated with the depreciation of the cost of realty property have increased significantly.

The ACRS method used to compute depreciation for realty property approximates the 175-percent declining balance method. Previously the most accelerated method available for the depreciation of nonresidential realty property was the 150-percent declining balance method. Thus, the method used to compute annual depreciation deductions has been slightly liberalized for nonresidential realty property.

Unfavorable Changes

The major unfavorable change brought about by ERTA was in the definition of depreciation recapture for nonresidential realty property. Under the recapture rules prior to ERTA, investors in nonresidential realty property could reduce the depreciation recapture by postponing the disposal of the property until a substantial portion of its useful life had passed. Recapture was completely eliminated by holding the property for its full life.

Because ERTA requires that all depreciation on nonresidential realty property be recaptured as ordinary income, the opportunity for the taxpayer to reduce or eliminate the depreciation recapture no longer exists, unless he elects to use the straight-line method of depreciation from the start. Therefore, the taxpayer must weigh the tax benefits associated with the use of ACRS against the more severe tax costs incurred upon subsequent disposal of the property. For example, a study by Ensley, Fields, and Orbach[9] concluded that an individual in the 50-percent tax bracket should not elect ACRS unless he plans to use the asset 16 years or longer (using a 15-percent discount rate).

Under prior law the cost of new residential rental realty property could be depreciated using the 200-percent declining balance method. The depreciation method incorporated in ACRS approximates the 175-percent declining balance method, which is slightly less accelerated than the method allowed prior to ERTA.

Other Realty Property

Homeowners planning to sell their homes also are affected by favorable changes in the law. If a taxpayer purchases a new home, the gain on the sale of his former residence is taxed only to the extent that the adjusted sales price of the former residence exceeds the cost of the new residence. Hence, buying a more expensive home postpones the taxation of the entire gain. The new law changed the time period, within which the new residence must be acquired, from 18 months to 24 months before or after the sale of the old residence.[10]

The second major change was to raise the once-in-a-lifetime exclusion of gain from the sale of the principal residence of a taxpayer, who is at least age 55, from $100,000 to $125,000.[11] Both of these provisions also became effective July 20, 1981.

Although the election to amortize rehabilitation expenditures pertaining to certified historic structures has been repealed, owners of qualified low-income housing may still amortize qualified rehabilitation costs over 60 months. The amount of eligible expenses has been raised from $20,000 to $40,000 per dwelling unit.[12]

Comparative Analysis

The major tax incentives provided by Congress to spur investment have been the investment tax credit and depreciation deduction. Although they both provide the taxpayer with cash inflows, fundamentally they are quite different. The cash inflow generated by the investment tax credit is generally realized in the year of purchase, and is independent of the taxpayer's marginal tax rate. However, the cash inflow generated by depreciation deductions is realized over several years, and is dependent on the taxpayer's marginal tax rate. The higher the tax rate, the greater the cash inflow.

The following analysis computes the discounted tax benefits associated with depreciation deductions and investment tax credits prior to, and following ERTA and TEFRA for certified historical, 40-year rehabilitation, 30-year rehabilitation, nonresidential and residential rental property. This analysis assumes that a $100,000 capital expenditure is made on January 1, for each of the five types of property.

Tax benefits are sensitive to tax rates, discount rates and holding periods; therefore, the computations were varied to include two tax rates (50 and 25 percent), two after-tax discount rates (10 and 16 percent), and three holding periods (5, 12 and 20 years). The sales price at the end of the holding period was simplified by assuming it to be equal to the initial $100,000 expenditure. Once the discounted tax benefits were calculated, they were expressed as a percentage of the investment ($100,000). This manipulation facilitated the extension of the results of this illustration to investments of any amount.

Discounted Tax Benefits Model

The discounted tax benefits associated with a particular piece of property equal the discounted tax saving, less the discounted tax cost. The tax savings equals the amount of the tax credit discounted one year, plus the sum of the discounted tax savings from each year's depreciation deduction. The tax cost is the present value of the tax liability from the gain on the sale of the property.

The discounted tax benefits from a $100,000 investment can be computed by means of the following equation:

$$B_k = (C_k)\,(p{-}/_{i})\,(\$100{,}000) + \sum_{j=i}^{n} (D_j)\,(T_j)\,(p_{j}{-}/_{i}) - (G_n)\,(T_n)\,(p{-}/_{i})$$

Where: B_k = discounted tax benefits for property k;
C_k = tax credit for property k, as a percentage;
$p{-}/_{i}$ = the factor for the present value of $1, discounted j periods at i percent;
D_j = depreciation expense in period j;
T = marginal tax rate for period;
G_n = the taxable gain in period property is sold; and,
n = number of years the property is held.

Because residential rental and nonresidential realty properties do not qualify for a tax credit, C_k equals zero for these properties. Consequently, for these two types of property, the discounted tax benefits equal the present value of tax savings from the depreciation deductions, minus the tax cost from the gain on sale.

Table 1 presents the discounted tax benefits at a 50-percent tax rate for various types of realty property. For example, the discounted tax benefits for certified historical property, at a 10-percent discount rate and a five-year holding period, is 28.6 percent after ERTA and TEFRA, and 12.7 percent before. That is, the discounted tax benefits from investing $100,000 in certified historical property, after and before the law changes, approximate $28,600 and $12,700, respectively. Referring to the equation presented above, the $28,600 discounted tax benefit was computed as follows:

$$28{,}600 = .25(p{-}/_{.10})\,(100{,}000) + \sum_{j=1}^{5} (5{,}800)\,(.50)\,(p_{T}{-}/_{.10}) - (16{,}700)\,(.50)\,(p{-}/_{.10}).$$

Reexamining *Table 1*, the results may be summarized as follows:

1. In all cases, the discounted tax benefits are greater after ERTA and TEFRA;
2. The order of ranking of the various types of property, on the basis of discounted tax benefits from high to low, is certified historical, 40-year rehabilitation, 30-year rehabilitation, residential rental and nonresidential rental (this ranking held constant across all manipulations of discount rate and holding period); and,
3. The longer the holding period, the greater the tax benefits. This relationship is primarily attributable to the fact that as the holding period lengthens, the tax costs (i.e., taxation of gain on disposition) is further postponed. Thus, the longer the holding period, the smaller the discounted tax cost becomes.

Although all of the types of realty property profited from ERTA and TEFRA, not all did so equally. To determine which properties faired better, two additional computations were made. First, the change in the discounted tax benefits resulting from changes in the law was computed by subtracting the previous discounted tax benefits from the benefits after ERTA and TEFRA. For example, in Table 1, the net change in discounted tax benefits, at a rate of 10 percent for certified historical property held five years, is 15.9 percent (28.6 percent less 12.7 percent).

Second, the discounted tax benefits after ERTA and TEFRA were divided by the prior discounted tax benefits. This ratio provides an indication of the relative change in tax benefits. For example, the ratio for certified historical property held for five years and discounted 10 percent, is 2.3 percent (28.6/12.7). This indicates benefits after ERTA and TEFRA are 2.3 times as great as under prior law.

Rankings of the five types of property (assuming a 10-percent discount rate and 50-percent tax rate), according to the above computations, are presented in *Table 2*. When viewing the nominal or dollar change in discounted tax benefits, the rankings vary only slightly from the rankings in *Table 1*. Certified historical property held 20 years declines from first to fifth in the 50-percent-tax-rate category. This decrease is directly attributable to the repeal of the five-year amortization option, a provision which greatly benefited high bracket taxpayers.

An examination of the right half of *Table 2* shows that residential rental and nonresidential property faired better under the new laws than did rehabilitation property, if percentage increase is used as a standard of comparison. The ranking of certified historical property has dropped for the reasons discussed above. The declining rankings of the other rehabilitation properties may be explained in that the benefits of increased investment tax credit rates permitted by the new law were partially negated by requiring the use of straight-line depreciation and the reduction of the property's depreciable basis by the amount of credit.

In general, the rankings do not differ significantly when a 16-percent discount rate is assumed. However, when a 25-percent tax rate is assumed, the rankings for certified historical property are first in five cases, and second in one case. This is because the investment tax credit is independent of tax rate. Therefore, for lower tax rates, the credit dominates the tax benefits. However, in general, most taxpayers investing in realty property are more likely to be closer to the 50-percent tax rate, than the 25-percent tax rate.

TABLE 1
Discounted Tax Benefits for Alternate Types of Realty Property After and (Before) ERTA & TEFRA

Type of Property	Discounted Tax Benefits as a % of Investment (50% Tax Rate) 10% Discount Rate Holding Period (Years) 5	12	20	16% Discount Rate 5	12	20
Certified Historical[a]	28.6 (12.7)[b]	37.3 (24.8)	41.9 (32.7)	27.1 (12.0)	33.9 (25.9)	36.8 (31.0)
40-year Rehabilitation	22.5 (12.7)	31.0 (17.0)	37.0 (20.1)	21.5 (12.0)	28.3 (15.5)	31.1 (17.3)
30-year Rehabilitation	19.0 (12.7)	27.7 (17.0)	33.7 (20.1)	18.1 (12.0)	24.9 (15.5)	27.7 (17.3)
Residential Rental	9.8 (4.0)	20.5 (9.3)	25.4 (13.2)	9.5 (3.9)	18.1 (8.0)	21.0 (10.3)
Nonresidential	8.5 (3.6)	17.6 (7.9)	22.4 (11.0)	7.7 (3.4)	14.6 (6.9)	19.5 (8.7)

[a] Because prior law allowed the taxpayer to elect between 5-year amortization and depreciation/investment tax credit, the illustrated percentages assume the optimal election.

[b] The numbers in parentheses represent the discounted tax benefits before ERTA.

TABLE 2
Randing of Discounted Tax Benefit Changes After ERTA and TEFRA for Alternative Types of Realty Property

Type of Property	Ranking of Nominal Increase in Discounted Tax Benefits[a] 5	12	20	Ranking of Percentage Increase in Discounted Tax Benefits[a] 5	12	20
Certified Historical	1	2	5	3	5	5
40-year Rehabilitation	2	1	1	4	3	3
30-year Rehabilitation	3	4	2	5	4	4
Residential Rental	4	3	3	1	1	2
Nonresidential	5	5	4	2	1	1

[a] The rankings are based on the discovered tax benefits illustrated in Table 1 assuming a 10% discount rate and 50% tax rate. The rankings assuming a 16% discount rate did not differ. However, when a 25% tax rate is assumed, the rankings for certified historical property are first in five cases and second in the other case.

Conclusion

The Economic Recovery Tax Act of 1981 has increased the tax incentives for many types of realty property. Tax benefits for both residential and nonresidential property, in particular, have doubled. In addition, rehabilitation expenditures for 30- and 40-year-old buildings faired almost as well. However, the new eligibility requirements for rehabilitation expenditures may severely limit the application of this provision. Finally, although historic property still yields the greatest tax benefits, the relative increase in tax benefits for this type of property was not as great as the other realty properties, particularly in regard to high bracket taxpayers.

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[1] Economic Recovery Tax Act of 1981, P.L. 97-34, 8/13/81.

[2] Tax Equity and Fiscal Responsibility Act of 1982, P.L. 97-238, 9/3/82.

[3] IRC Sections 168(b) and 168(c). All references to the *Internal Revenue Code of 1954*, Commerce Clearing House, Inc., 1982, are denoted IRC.

[4] IRC Sections 46(a)(2)(A)(iv) and 46(a)(2)(f)(i).

[5] IRC Section 48(9)(3).

[6] IRC Section 48(g)(1).

[7] Proposed Regulations Section 1.48-11 (b)(3), 10/28/80.

[8] IRC Sections 1245(a)(1), 1245(a)(2), 1245(a)(5).

[9] Ensley, Chula G., Kent T. Fields, and Kenneth N. Orbach, "A Determination of an Optimal Depreciation Method for Nonresidential Real Property Under ERTA: A Computer Simulation," Southeast American Institute for Decision Sciences 1982—Memphis Proceedings, February 17-19, 1982, pp. 225-227.

[10] IRC Section 1034(d)(1).

[11] IRC Section 121(b)(1).

[12] IRC Section 167(k).

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COLLEGE HIGHLIGHTS

Graduate Enrollment Increases, Students Waiting Out Recession

Graduate school enrollment for the College of Business Administration increased again this year as more students remained in school in hope of waiting out the recession, according to **Lamar B. Jones,** associate dean of the College of Business Administration.

The college's graduate enrollment is the largest at the University, except for the College of Education. A large part of this registration is constituted of part-time students who enroll in the Master of Business Administration (MBA) program as a hedge against unemployment.

The rise in part-time enrollment is also coincidental with current national trends toward increased part-time programs. While 1980 part-time enrollment constituted 43 percent of total LSU-MBA enrollment, 1982's share climbed to half of the college's enrollment.

The mean in student age rose from 26.5 years in 1980 to 27.1 years in 1982. For males, the 1980 mean age was 26.7, and in 1982 it was 27.2. For females the corresponding age data were 26.2 in 1980 and 26.6 in 1982.

Despite the role of adverse economic indicators as a major influence in spurring increased enrollment, many students are returning to school in hope of qualifying themselves for better-paying positions. A leveling-off of enrollment statistics may take place, but no decline is forecasted, Jones said.

Recent Faculty Publications

- **Steven P. Golen,** chairman of the Department of Business Communication and Office Systems, has authored *Small Business Bibliography (SBB) No. 92* for the Small Business Administration titled, "*Effective Business Communication*," to explain to small business owners and managers the various principles, problems and applications of effective business communications, and where to find out more about them.

The bibliography will be revised periodically, and any publisher may submit relevant information for possible inclusion. Persons interested in obtaining free copies of the *SBB* may write SBA, P. O. Box 15434, Fort Worth, TX, 76119.

- **William F. Staats,** chairman of banking in the Department of Finance, has published a book titled, *Money and Banking,* through the American Bankers Association.
- **Stephen C. Farber,** associate professor of economics, has recently written "*Post Migration Earnings Profiles: An Application of Human Capital and Job Search Models*," for the January issue of the *Southern Economic Journal*. Another forthcoming article by Farber is "*Cyclical Price Flexibility: A Test of Administered Pricing*," to be published in the *Journal of Industrial Economics*.
- **Edmund R. Gray,** head of the management department, recently had a paper, "*Personal Values and Managerial Decision Making: Evidence From Two Cultures*," published in the *Management International Review*.

Three New Scholarships Are Offered

Three new scholarships have been established in the College of Business Administration.

The American Bank and Trust Company of Baton Rouge offers the *J. Clifford Ourso, Sr., Scholarship* to any full-time business field student on the LSU Baton Rouge campus maintaining at least a 2.5 high school or college average. The *Capital Area Personnel Association Scholarship* will aid any first-year graduate student maintaining a 3.0 average in personnel management on a one-time basis and will be limited to the current registration fee for one academic year. The *Louisiana Land and Exploration Foundation Scholarship* is open to any Louisiana resident majoring in petroleum land management with proven scholastic and leadership abilities, and evidence of financial need. The scholarship is renewable provided the eligibility is maintained.

Conference Papers Presented

- **James A. Richardson**, associate professor of economics, and **Loren C. Scott,** associate director of the Division of Research, recently presented "*Natural Gas Price Regulation and Industrial Users: The Case of Louisiana*" to the International Research Center for Energy and Economic Development at the University of Colorado.
- "*The Effects of Widescreen TV on Advertising Recall*," presented at the Annual Conference of Southern Marketing Association by **Joseph F. Hair,** head of the LSU Marketing Department; **Ronald F. Bush,** instructor of marketing; and Allan Gush, professor of marketing at Texas A&M, was recognized as the outstanding paper for the meeting.

Faculty Appointments

Three new faculty members have been appointed to the College of Business. **Marsha Richins,** a marketing research and consumer behavior specialist, and **Peter H. Bloch,** a consumer behavior specialist, both from Portland State University, have been appointed assistant professors in the Marketing Department. **Avijit Banerjee,** formerly of the University of Delaware, has been appointed an assistant professor in Quantitative Business Analysis. □

IN APPRECIATION

The **Louisiana Business Review**, a quarterly publication of the Division of Research in the College of Business Administration at Louisiana State University, is dedicated to providing worthwhile and timely information on local, state and national economic developments of interest to members of the Louisiana business and government communities. This objective is being achieved by presenting high quality, readable articles written by knowledgeable representatives from business, government and academia. The Division would like to express its sincere appreciation to the following companies whose valuable contributions have made this publication possible.

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LOUISIANA BUSINESS REVIEW

Louisiana State University,
Baton Rouge

Louisiana's 1983 Economic Outlook

LETTER FROM THE EDITORIAL BOARD

Due to a recent turnover in our editorial staff, this issue is being published late. We regret this inconvenience to our readers, especially since this issue introduces the *Louisiana Econometric Model* and its forecasts for 1983. These forecasts were made by Professors Richardson, Scott, and Jamal in December 1982. Revisions and updates of these forecasts will appear in subsequent issues of the *LBR*.

One of the most difficult tasks facing both private and public sector decision-makers is planning for the future. When one operates primarily within the borders of one state or when a business has branch operations in a state this planning task is compounded by a lack of reliable projections on the future of that state's economy.

For these reasons it is a special pleasure for the Editorial Board to introduce to our readers the new *Louisiana Econometric Model*. This model, which is a description of the state's economy in a series of mathematical equations, was built by Professors James A. Richardson and Loren C. Scott, and research economist A. M. M. Jamal. The model can be used for forecasting the future levels of a number of important state economic variables, such as employment by industry, wage and salary income by industry, energy production and consumption, population trends, and activity in our banks and thrift institutions. It was built over a period of eighteen months and was funded by a grant from the Louisiana Board of Regents.

In Part I of the lead article, Richardson, Scott and Jamal spend some time describing how the model was built, its components, and how it is used for making projections. This part of their report is designed to inform those readers who are particularly interested in the technical details of the model.

Part II of their report contains forecasts for *1983* for over 50 different economic variables in the state. Estimates of the values for each of these variables for *1982* are also given since lags in the data prevent the authors from knowing most of these magnitudes until late in the Spring of 1983.

In Part III of their report, these model-builders reveal their plans for expanding and improving the model in the future.

The major conclusions of the Louisiana econometric model for 1983 are:

- the manufacturing sector in Louisiana is to remain relatively stagnant;
- government services, retail and wholesale trade and agricultural services sectors are projected to experience very modest increases;
- stronger growth is expected to occur in farming, mining, construction, transportation, public utilities, and communications; and
- nominal per capita income is expected to rise by 7.7 percent, but real per capita income is projected to rise by 2.4 percent.

The English language often does not serve as an unbiased transmitter of concepts when it is used in the political-economic arena. During the 1930s, the federal and state governments passed legislation popularly known as *Fair Trade* legislation. The effect of this legislation was to enable manufacturers, often at the request of small retailers, to enforce contracts stipulating that certain products could not be sold in the state below certain prices. In some states, this "Fair Trade" legislation went so far as to apply the minimum or floor price to *all* retailers in the state, even if only *one* retailer had signed the contract with the manufacturer. This practice—also known as resale price maintenance—has largely disappeared from the American scene, but it once flourished in Louisiana, as it did in most other states.

Resale price maintenance (RPM) laws were often strongly supported by certain retailers. In the second major article, Professor Anthony Greco discusses the pros and cons of this legislation from the standpoint of both the manufacturer and the retailer. He also reviews the history of RPM laws from their peak period to their relative decline in the 1970s. The author specifically treats the history of RPM laws in Louisiana which received their legal foundation in the state's Fair Trade Act of 1936. What is especially interesting in this article is the review of the colorful role that John Schwegmann, Jr. of New Orleans played in fighting this legislation through the court system, and his ultimate success in defeating it.

In our *FORUM* article Maynard and Carolyn Dolecheck, professor at Northeast Louisiana University, tackle what must be one of the most controversial issues in the labor market in the 1980s—sex discrimination. They report on the results of a survey conducted among a sample of males and females who graduated from NLU between 1966 and 1981.

Their findings reveal substantial salary differentials between the sexes, but that these differentials have been declining among the more recent graduates. The authors conclude their article with recommendations to firms on how to remove organizational barriers to upward mobility for women and how to institute self-help programs to teach women the *tricks of the trade* in management.

Salary differentials however, do not necessarily mean that discrimination, of whatever kind, does exist. Past job continuity, expected future job continuity, mobility and location patterns, work patterns, occupational fields (e.g. accounting vs. personnel management), age and a number of other variables might provide justifiable economic reasons for salary differentials and, it is possible, that the economically adjusted data could show reverse differentials. However, studies with such adjusted data are rare because of the lack of easily obtained information. This article does provide some important fundamental data and its normative sections will undoubtedly generate a great deal of discussion among our readers.

—The Editorial Board

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Vol. 47 no. 1

Publisher:

Louisiana State University
College of Business Administration
Division of Research
Baton Rouge, LA 70803

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The Editorial Board invites the submission of manuscripts to be considered for publication in this quarterly. Style sheets for manuscripts and manuscript abstracts are available upon request. Comments and suggestions on any material appearing in the *LBR* are also welcome.

All communications and address changes should be sent to the editor, Louisiana Business Review, Division of Research, College of Business Administration Louisiana State University, Baton Rouge, LA, (504) 388-6645.

LOUISIANA BUSINESS REVIEW

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BOOK CORNER

Management Systems

The Office Automation Primer: Harnessing Information Technologies for Greater Productivity, Carolyn J. Mullins and Thomas W. West, Englewood Cliffs, NJ: Prentice-Hall, Inc., 1982, 158 pp., $9.95 (paper).

The *Office Automation Primer* is a well-documented and well-researched book written for the manager who does not have a strong background in office systems concepts. This book is structured to give a step-by-step analysis of the various factors that should be considered when planning, designing, implementing, and evaluating an office automation system for any size business.

The nine chapters are written in a lively, logical, and coherent style. When new terms are presented, they are explained in easy-to-understand language. A unique characteristic of this book is that it concentrates on concepts rather than dwelling on specific hardware and software items, which are likely to be outdated very soon.

What this book does is to provide the manager with various guidelines, checklists, and questions to ask during each stage of the office automation process. Examples, as well as realistic vignettes, are presented and analyzed so that the specific concept being illustrated can be understood and applied to a particular office automation system.

The Office Automation Primer meets its objective by illustrating how automation can increase productivity in all phases of a business using office automation services while improving the overall quality of work.

—Steve Golan

Career Changing: The Worry-Free Guide, by Linda Kline and Lloyd L. Feinstein, (Boston: Little Brown and Co., 1982), 244 pp. including a Glossary of Jargon and Index, $10.95 (paper).

The high rate of unemployment has many people pounding the pavement in search of work, while many who have jobs do not feel fulfilled by their fields of employment. Career changing has become very "in," and many experts have been writing on the topic.

Career Changing is written by professionals, two top personnel executives who give an insider's approach to how today's job market really functions. Linda Kline is president of an executive search and human resources consulting firm in New York City, and Lloyd Feinstein is director of human resources for a Fortune 1000 corporation in New Jersey.

As in Richard Nelson Bolles' best seller *What Color is Your Parachute*, the authors suggest working smarter, not harder, at finding "the" job which will serve as a steppingstone to a long-range career goal. Klein and Feinstein develop new ideas for sharpening job skills, strategies and techniques which give the reader the competitive edge necessary for successful job searching. Their comprehensive manual provides an innovative system for career change through self-evaluation and integration of qualifications while continually stressing achievements.

The authors keep the reader interested by providing " 'insiders' tips—a rule of thumb that job seekers have found is to expect to spend, for every thousand dollars of anticipated income, one week looking for the job . . . and the work does not stop once the job is found . . . the yardstick in measuring the difference between a career and a job is about 20 additional hours per week."

Career Changing can be invaluable to one who is willing to maximize the efforts of a successful career change by learning the job skills, strategies and techniques that could subsequently increase job awareness, fulfillment and earnings.

—Mary Delahoussaye

U.S. Government Publications

- U.S. Department of Commerce, International Trade Administration, *Joint Venture Agreements in the People's Republic of China*, (Washington, D.C.: U.S. Government Printing Office, 1982), 124 pp., no price given (stock no. 003-009-00356-3).

As relations continue to improve between the United States and the People's Republic of China, the subject of foreign trade is increasingly mentioned. The U.S. Department of Commerce is actively involved in assisting U.S. businesses to participate in this trade. Since joint-venture agreements are popular with the Chinese government, American businesses are encouraged to be informed about this type of operation. This publication provides an overview of how a joint-venture functions and briefly discusses related Chinese law. A related publication, *U.S.-China Commercial Relations: a Compilation of Basic Documents*, should also be of interest to businesses entering the China trade.

—Milt Ternberg

Rana catesbeiana for Fun & Profit

Frog Raising, by the American Frog Canning Company, introduced by Derek Van Alstine, New York: Dell Trade Paperback, 1983, $2.95 (paperback).

You don't hear much about frog raising these days, but back in 1937 the American Frog Canning Co. of New Orleans had some grandiose plans for the lowly amphibian. *Frog Raising* is a facsimile edition of the defunct firm's original instruction manual for prospective frog farmers. Its introduction by Derek Van Alstine tells us the booklet has been out of

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print these forty-five years. This is a shame, because it's an illuminating little item.

For instance, where else can you learn how to manage a model frog farm, using the three-pond system (vital, because "frogs are by nature cannibalistic")? Or that frogs are always in season; their meat is white, tender, and delicious; and that the whole frog (rather than the legs alone may be eaten. Furthermore the reader is provided with such all-time favorite recipies as frog legs a la king, frog loaf, frog au gratin, and frog croquettes.

The company hoped to encourage the production of frog meat to meet the anticipated demand for its products: canned legs, soup, and frog legs a la king—the cornerstone of its empire, which also included turtle, crawfish, shrimp, and crab delights. Although *Frog Raising* is delightful to read, it leaves certain mysteries unresolved. What became of the company and its founder, Albert Broel? Did the public reject the firm's products, was it undercapitalized, was it bought out, did it produce some bad batches of canned frog and get sued? For these answers we will have to wait until some enterprising historian devulges the full story of the rise and fall of the American Frog Canning Company.

—Smiley Anders

Integrated Management Systems by F. Grant Schutte, Woburn, MA: Butterworths Publishers, Inc., 1981, 166 pp.

Occasionally one reads a book that is different. Professor F. Grant Schutte has authored a unique management test. *Integrated Management Systems* takes a rare approach to the management task. Rather than attacking the problem from a theoretical approach which would emphasize the manager's functions, Schutte approaches the manager's job from a practical perspective, starting from the implied position that management is a practice as opposed to an art or a science. He then proceeds to explain how managers should function.

The book begins by pointing out the two essential tasks of a manager—to be effective and efficient. He points out that at the operational level (i.e., the lower levels of the management hierarchy), efficiency is the essential responsibility and that at the top management level, effectiveness is the primary concern. In this context Schutte discusses strategic planning, management planning and control, and operational control. The spectrum of management responsibilities covered by these planning concepts ranges from determination of the organization mission and objectives, to ascertaining specific tasks are carried out efficiently.

Schutte's method of presenting the planning process is to divide the planning function into strategic planning, business planning, and designing planning systems. Strategic planning involves setting organizational objectives, identifying critical assumptions in organization planning, and the setting of strategic guidelines and targets. All of these are defined and lucid examples are provided. He points out that strategic plans are operationalized by projects or action plans. The natural flow of outputs from strategic planning (strategic guidelines and targets, both long and short run strategies) to input of the next level of planning (business planning) is explained in detail. The business planning level follows a given process: takes the inputs from strategic planning; sets assumptions; analyzes the strengths, weaknesses, opportunities, and threats; makes a mechanistic forecast; makes analytical forecasts; develops action plans; determine means of summarizing the incremental adjustments and improvements to the profit performance of the organization; and turns out short term financial plans or budgets. Gap analysis and review processes are outlined for the manager to follow. Designing planning systems is Schutte's way of planning to plan.

The author next moves to the management control function. Control is a continuous process which occurs at two levels in the organization. The first is strategic control, which deals with replanning which takes place when the basic assumptions upon which plans are based change. The second level of control is the function of comparing actual performance with standard performance and triggering corrective action to bring actual performance in line with predetermined standards.

In the final chapter, which Schutte calls "Some Loose Ends", authority and responsibility relationships are discussed. The pungent point that Schutte makes here is that supervisors often fail to tell their subordinates of their shortcomings. This is a major contributor to failure to achieve goals or objectives. At the end, performance measurement, communication, and appraisal are integrated in a unique and meaningful way.

This book is one that can be recommended for several uses, including required reading for practicing managers, a text in an adult education seminar for managers and executives, and a text for an advanced course in a management curriculum. It has good graphics including figures, tables, and charts which are useful in presenting the material. A bibliography is included at the end of the book.

—J. Donald Phillips

STEVEN GOLEN is head of the Business Communications and Office Systems Division of the College of Business Administration. MILT TERNBERG is the business librarian at LSU's Middleton Library and a frequent contributor to Book Corner. MARY DELAHOUSSAYE is a professional counselor and serves as director of the Career Opportunity Center of the Division of Instructional Support. SMILEY ANDERS is a well-known Baton Rouge newspaper columnist with somewhat bizarre reading habits. J. DONALD PHILLIPS is a professor at the University of Alabama Graduate School of Management. □

James A. Richardson, Loren C. Scott, and A. M. M. Jamal

Louisiana's 1983 Economic Outlook

The following economic forecast for Louisiana is based on a research project sponsored by the Louisiana Board of Regents. The ultimate purpose of the project was to develop an economic forecasting model for the state. The resultant Louisiana econometric model is designed not only to predict trends, but also to project those points at which these trends take effect.

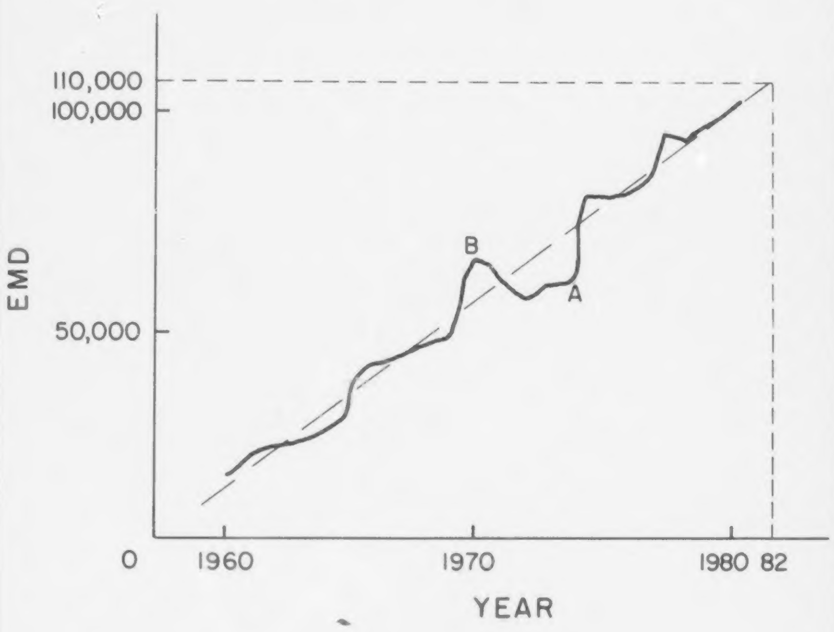


FIGURE 1. FORECASTING BY GRAPHICAL EXTRAPOLATION

Louisiana failed to feel the effects of the recent national stagnation until long after some other sections of the country, particularly the northeastern and midwestern states. In 1982, however, the state finally felt the force of recession as layoffs and business failures climbed. The level of economic recovery for Louisiana in 1983 is predicted to follow that of the nation, although some sectors of the state's economy will continue to stagnate.

Decision-makers in both the private and public sectors are keenly interested in the future course of economic activity. For this reason they must pay attention to economic forecasts for inventory control, hiring decisions, product scheduling, cash flow analysis, and other budgeting functions. The Louisiana econometric model provides the only state forecasts available to both public and private decision-makers.

Forecasting Methods

A broad variety of methods are used to make forecasts. At the simplest level, the forecast may be no more than an educated guess. Others may go a step further and use a technique called graphical extrapolation. This method involves plotting the historical behavior of the item to be projected on a piece of graph paper, laying a ruler or any straight edge along the graph, and simply extending a straight line out to the year in question.

The graphical extrapolation technique is illustrated in *Figure 1*, where historical data on employment in manufacturing durable goods (EMD) have been plotted for the years 1960-81. A ruler is laid along the graph and a line is drawn through the series (the dashed line) which represents, as closely as possible, past historical behavior. By extending this line out to the year 1983, one would estimate the year's *EMD* at 110,000 workers.

Econometric Forecasting

While the graphical extrapolation technique is useful and often yields surprisingly accurate results, it does poorly in projecting *turning points* in the series, such as the downturn that occurred at *point A* or the upturn illustrated at *point B* in *Figure 1*. The *econometric approach* is a method that attempts to explain these turning points, and then use the information for forecasting. In the econometric approach one builds a mathematical model to describe economic behavior

in particular markets, such as the durable goods employment in *Figure 1*. For example, one might argue that the behavior of EMD depends partially upon the behavior of durable goods manufacturing employment at the national level ($USEMD$). That is, the Louisiana economy is affected to some extent by what is happening in the national economy.

There are factors, of course, which might cause the state's EMD to perform somewhat differently from the $USEMD$. For example, many of the state's primary metals fabricators are producing items for use in petroleum exploration, such as drilling rigs, pipes and barges. Thus, one might expect the price of oil (PO) to have some influence on EMD in the state. Too, recent state historical trends in EMD may directly influence the future courses of employment in this sector.

A technique called regression analysis can be used to determine the statistical relationship between EMD and the caused factors. *Equation [1]* illustrates these relationships:

$$[1]\ EMD = 6.35 + 0.93\ [EMD(-1)] + 0.005\ (\Delta USEMD) + 0.23\ [PO]$$

where

EMD = employment in Louisiana durable goods manufacturing in the present time period;

$EMD(-1)$ = EMD in the previous time period;

$\Delta USEMD$ = the change in U.S. durable goods employment; and,

PO = the price of oil.

The parameter in *Equation [1]*, which establishes the numerical relationship among $EMD(-1)$, PO, and $\Delta USEMD$ on EMD, are derived through regression analysis. Once *Equation [1]* is estimated, it can then be used for forecasting EMD.

For example, suppose that one wished to estimate the level of EMD for 1983. One would simply insert into *Equation [1]* the **1982** values of $EMD(-1)$ *and the* **1983** values of $\Delta USEMD$, and PO and then solve the equation for EMD (*Equation [2]*). For example, if $EMD(-1)$ was 101,795 in 1982; $\Delta USEMD$, 600,000; and PO, \$33.00 in 1983, then the 1983 EMD = 97,682.

$$([2]\ EMD = 6.35 + 0.93\ [101{,}795] + 0.005\ [600{,}000] + 0.23\ [\$33.00]\quad EMD = 97{,}682.)$$

The Wharton Econometric Model

The 1983 values for U.S. durable goods employment and the price of oil also must be forecasted. These forecasts come from a national model of the U.S. economy.

Future values of $\Delta USEMD$, PO, and the many other national variables used in the Louisiana econometric model, are secured from forecasts provided by the Wharton Econometric Model, which is a model of the U.S. economy developed by Wharton Econometric Associates of the University of Pennsylvania. The Wharton model is just one of a number of national economic forecasts provided by universities, consulting firms, and large corporations with forecasting subsidiaries.

The Wharton model was chosen by the research team because of its accessibility, and the fact that its forecasting record compares favorably with those of other large-scale U.S. models. The model's projections for 1983 fall somewhere near the consensus of the other forecasting models, taken as a group. This is illustrated in a publication called *Blue Chip Indicators*, which collects and summarizes the forecasts of some thirty large U.S. models. *Table 1* shows the forecasts for three critical national variables that were made by Wharton and five other well-known models. The consensus forecast of all the models, as computed by *Blue Chip Indicators*, is also shown.

Since the forecasts of the Wharton model figure heavily in the forecasts of the Louisiana economy, it is important to review the Wharton projections. These forecasts are based on certain fundamental assumptions. They assume the legislated third round of tax decreases due for July 1983 will proceed as scheduled, as will the tax increase package scheduled under the Tax Equity and Fiscal Responsiblity Act of 1982. Certain public spending cuts will occur in the non-defense, non-social security areas, with these budget cuts being consistent with the 1983 budget resolution. The federal budget deficit on national income accounts is projected to be $171.5 billion in 1983 and $167.0 billion in 1984. Monetary policy is assumed to remain relatively firm, with the growth in the money supply creeping up to 7 percent in late 1982, but falling back to about 5 percent in 1983.

Given these assumptions, the Wharton forecasts of national economic activity are shown in *Figures 2* through *4*. *Figure 2* contains recent historical behavior on the *GNP* growth rate, along with Wharton's forecasts for 1983 and 1984. Wharton is projecting the recovery from the present recession to be very lethargic with an annual rate in *GNP* of only 3.2 percent in 1983. A slightly higher rate is projected for 1984. The rate for 1983 is low, compared to post World War II recovery periods, when the first year recovery rates often ranged as high as 5.5 to 6.7 percent.

One of the primary reasons for this rather anemic expected recovery is shown in *Figure 3*, where Wharton's projections for the prime interest rate and inflation are given. Wharton is ex-

TABLE 1
PROJECTIONS OF SELECTED LARGE ECONOMETRIC MODELS: 1983

	Projected Variables		
Model	Real GNP	Inflation (CPI)	Unemployment Rate
Wharton	3.2	5.5	9.7
Chase	3.0	5.2	10.0
UCLA	3.2	4.9	9.8
Evans	1.2	5.1	10.5
Consensus	3.1	5.3	9.6

Source: Blue Chip Indicators (November 10, 1982) Sedona, Arizona and Quarterly Model Outlook. Wharton Econometric Associates, Vol. 1, Number 10 (November 1982).

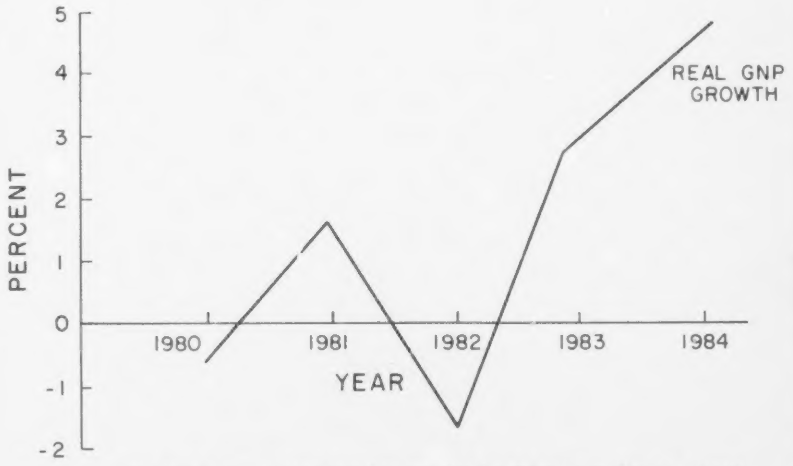


FIGURE 2. WHARTON FORECASTS OF REAL GNP

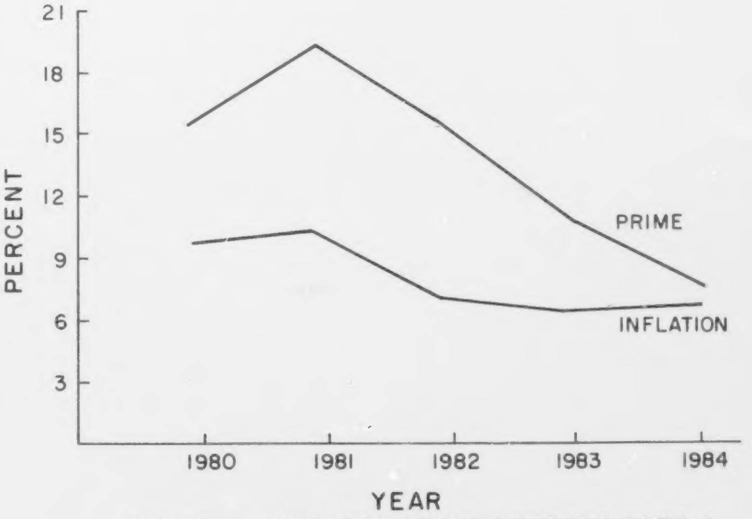


FIGURE 3. WHARTON PRIME INTEREST RATE & INFLATION FORECASTS

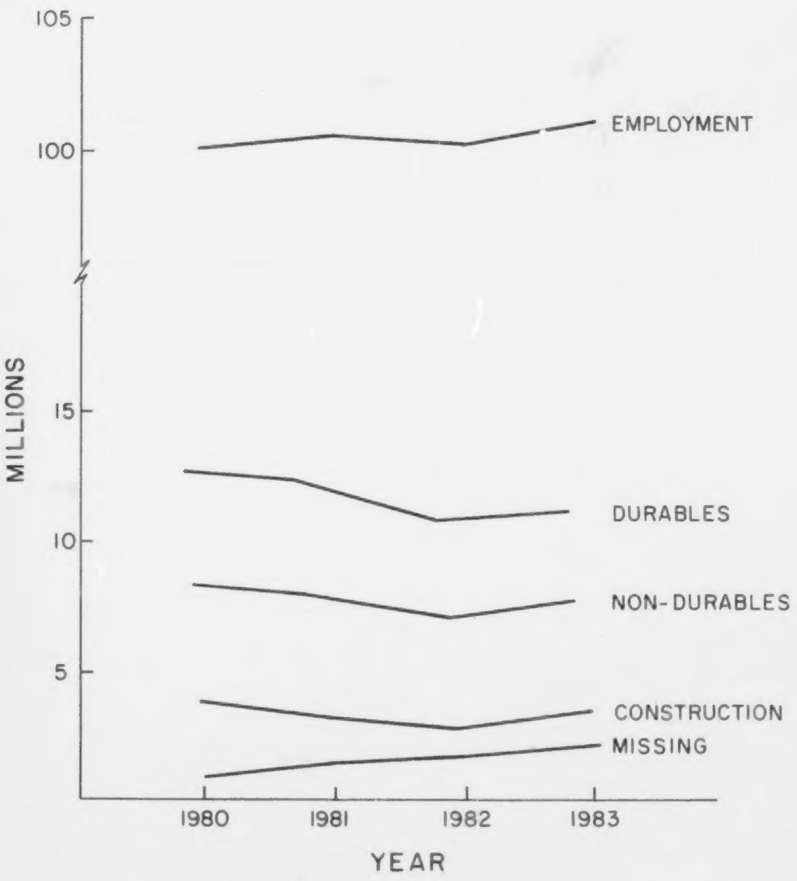


FIGURE 4. WHARTON EMPLOYMENT FORECASTS

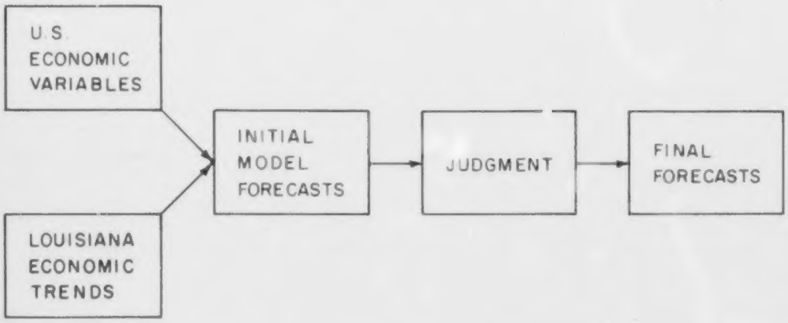


FIGURE 5. FORECASTING METHOD

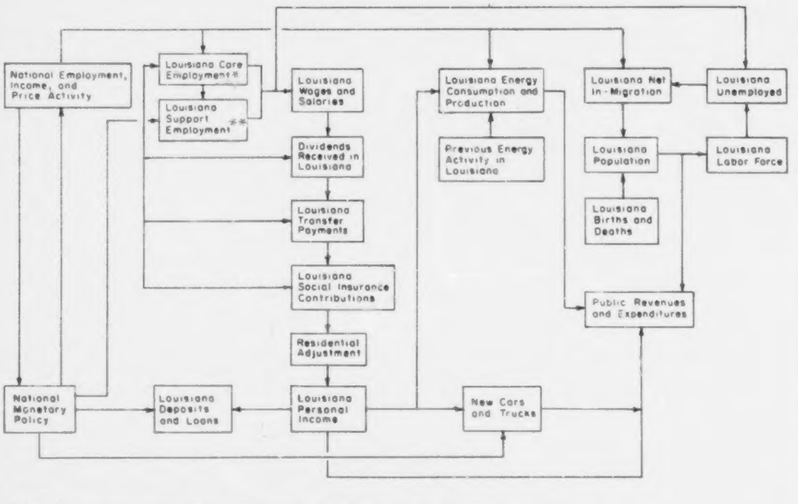
pecting the prime to fall continuously throughout 1983 and 1984. Inflation is expected to level off in the 6 percent range. Thus, the *real* interest rate (after adjustment for inflation) is projected to remain fairly high by historical standards, at least until late 1983. This will tend to hold back any major rebound in the interest sensitive sectors of the economy such as durable goods sales, home construction, and business investments in machinery, equipment, and buildings.

The results on national employment levels are revealed in *Figure 4*. Employment in construction, manufacturing of durables, and manufacturing of nondurables is expected to rise in 1983 and 1984, but not to return to the 1981 peak, even by 1984. This suggests an anemic recovery in these sectors. Mining employment is projected to rise continuously from 1981 through 1984. Total U.S. employment dips in 1982, but recovers in 1983 to approximately the 1981 level, and then rises again in 1984.

The Judgment Factor

Once the national projections are inserted into *Equation [1]*, an initial forecast for *EMD* in 1983 is generated. That may not, however, be the final forecast issued. Sometimes there are disruptions of past historical relationships which cannot be captured by an equation. Perhaps there will be a very large abrupt change in one of the variables on the right hand side of the equation, a change so large that it has no historical precedent. Or perhaps there are changes that occur due to state, local, or national legislation, such as a tax rate change. The effects of these changes must be determined by some other technique and the initial equation forecast adjusted accordingly. This element of judgment is used sparingly to retain the scientific foundation of the forecasts.

A schematic presentation of the general forecasting method is shown in *Figure 5*. Given the national projections from Wharton and historical trends in the Louisiana economy, equations are developed and used to generate the initial model forecasts.


National Employment, Income, and Price Activity
Louisiana Core Employment *
Louisiana Support Employment **
Louisiana Wages and Salaries
Dividends Received in Louisiana
Louisiana Transfer Payments
Louisiana Social Insurance Contributions
Residential Adjustment
Louisiana Energy Consumption and Production
Previous Energy Activity in Louisiana
Louisiana Net In-Migration
Louisiana Unemployed
Louisiana Population
Louisiana Labor Force
Louisiana Births and Deaths
Public Revenues and Expenditures
National Monetary Policy
Louisiana Deposits and Loans
Louisiana Personal Income
New Cars and Trucks

* Core Employment includes mining, manufacturing, transportation, and agriculture
** Support Employment includes trade, service, finance, construction, and government

FIGURE 6. LOUISIANA ECONOMETRIC MODEL

Where appropriate, these initial forecasts are altered by judgment to take into account abrupt variable changes, legislative changes, special information from industrial sources, and other extraneous factors. The result is the final forecast of the model.

Louisiana's Econometric Model

Equation [*1*] is just one equation designed to explain Louisiana employment in the durable goods industries. The entire econometric model at this stage of development contains more than 150 equations. The equations are simultaneous in nature, in that projections from one equation will often interact with projections from another.

The model is schematically illustrated in *Figure 6*. There are seven broad sectors where forecasts are made: (1) employment by two-digit standard industrial classification (*SIC*); (2) wage, salary, and proprietor's income in each two-digit *SIC* category; (3) total presonal income by major source; (4) population; (5) the financial sector; (6) the energy sector; and (7) the public sector. Initial work has also been done on an auto and truck sales sector.

Generally speaking the model flows in a series of steps:

1. National employment activity plus recent Louisiana trends are used to project Louisiana employment by two-digit *SIC* caterory.
2. The state employment forecasts in *step 1* are used to project state wage, salary and proprietor's income. To these variables are added state dividends, interest, and rental incomes plus transfer payments; and from these are subtracted social security contributions (all estimated from trends in similar U.S. variables). The result is total Louisiana personal income.
3. The state personal income becomes a major factor, in forecasting (a) bank and thrift deposits, assets, and loans; (b) electricity and natural gas consumption; (c) migration to the state; and (d) state tax receipts.

These three steps greatly oversimplify the number of variables involved in each equation and the interacting relationships, but they should offer the reader a basic overview of what occurs in the model. This three-step sequence also does not address the model's capability in the *energy production* area, which obviously depends heavily on such variables as the price of oil, the price of gas, and relative drilling costs which are largely determined at the national and international levels. *Figures 7* through *12* are flow chart diagrams of the model, which one can use to become familiar with the model operations at a more detailed level.

The Louisiana Outlook

The Louisiana Economic Model was used to make projections of economic activity at various levels for the years 1982 and 1983. These projections, along with actual data for 1980 and 1981 and annual average growth rate figures, are shown in *Tables 2* through *7*. Even though this article is being published in early 1983, projections are still required for 1982, since many of the final figures for that year will not be available until very late in 1983.[1]

These tables show that the Louisiana economic outlook reflects the Wharton model's projected sluggish recovery rate of the U.S. economy. The downswing in Louisiana lagged behind the national recession, but during 1982 Louisiana experienced the economic problems that appeared earlier in other states. For 1983 the recovery in Louisiana follows the U.S. recovery, though certain sectors of the state's economy remain stagnant.

Employment Projections

Table 2 contains the actual and projected figures for employment in Louisiana by two-digit *SIC* categories.[2] Total employment in 1982 in Louisiana is estimated to be 1,681,153, which is 39,137 less than total employment in 1981—a 2.3-percent reduction. This reduction is concentrated in the manufacturing and construction sectors, but it will also spread into support industries such as retail and wholesale trade, services, and finance.

In 1983 employment in Louisiana is projected to grow at 1.6 percent, up to 1,708,381 employed persons—still less than the 1981 employment total. It is interesting to note that the estimated national level of civilian employment will grow less than 1 percent in 1983.

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TABLE 2
LOUISIANA EMPLOYMENT BY INDUSTRIAL SECTOR

	Actual		Projected		Average Annual Growth Rate		
Sector	1980	1981	1982	1983	1980-81	1981-82	1982-83
Farming	21,573	24,565	24,125	25,750	13.8	−1.8	6.6
Agricultural Services	6,895	7,381	7,011	7,165	7.0	−5.1	2.2
Mining	89,600	98,300	100,527	104,824	9.7	2.2	4.3
Contract Construction	138,000	138,500	132,470	138,708	0.4	−4.4	4.8
Manufacturing: Durables	103,100	109,300	101,712	101,426	6.0	−7.0	−0.3
Manufacturing: Non-durables	110,400	112,500	100,112	98,134	1.9	−11.0	−2.0
Retail Trade	256,500	264,400	258,310	262,640	3.1	−2.3	1.7
Wholesale Trade	102,700	105,700	104,660	106,265	2.9	−1.1	1.5
Finance, Insurance and Real Estate	74,699	78,330	77,272	78,597	4.8	−1.4	1.7
Transportation, Communications, and Public Utilities	124,800	130,700	133,357	138,405	4.7	2.0	3.8
Services	330,534	345,964	336,886	341,062	4.7	−2.7	1.2
Government: Federal	35,640	33,450	33,961	33,894	−6.2	1.5	−0.3
Government: State and Local	265,600	271,200	270,750	271,511	2.1	−0.2	0.3
TOTAL EMPLOYMENT	1,660,041	1,720,290	1,681,153	1,708,381	3.6	−2.3	1.6

Note: Data used are from the U.S. Bureau of Economic Analysis and are not strictly comparable to data issued by the Louisiana Office of Employment Security.

TABLE 3
LOUISIANA WAGE, SALARY, AND PROPRIETORS INCOME
(Thousands of Dollars)

	Actual		Projected		Average Annual Growth Rate		
Source	1980	1981	1982	1983	1980-81	1981-82	1982-83
Farm	369,617	364,892	358,141	373,430	−1.4	−1.8	4.3
Agricultural Services	104,614	114,869	124,000	139,220	9.6	7.9	12.2
Mining	2,317,416	2,910,498	3,346,892	3,764,981	25.6	15.0	12.5
Contract Construction	2,857,545	3,143,604	3,256,113	3,651,494	10.0	3.6	12.1
Manufacturing: Durables	2,121,630	2,508,037	2,458,350	2,647,009	18.0	−2.0	7.7
Manufacturing: Non-durables	2,585,776	2,958,961	2,903,269	3,071,716	14.3	−1.9	5.8
Retail Trade	2,636,133	2,927,650	2,968,616	3,154,981	11.0	1.4	6.3
Wholesale Trade	1,958,984	2,212,408	2,373,706	2,565,772	13.0	7.3	8.1
Finance, Insurance and Real Estate	1,213,383	1,368,952	1,443,978	1,547,479	12.8	5.5	7.2
Transportation, Communications, and Public Utilities	2,770,071	3,122,294	3,572,568	3,958,766	12.7	14.4	10.8
Services	4,252,676	4,933,168	5,883,972	6,612,159	16.0	19.3	12.4
Government: Federal	1,067,601	1,172,528	1,232,520	1,306,691	9.8	5.1	6.0
Government: State and Local	3,162,650	3,589,377	3,835,078	4,094,175	13.5	6.9	6.8

TABLE 4
LOUISIANA PERSONAL INCOME BY MAJOR SOURCE
(Thousands of Dollars)

	Actual		Projected		Average Annual Growth Rate		
Sector	1980	1981	1982	1983	1980-81	1981-82	1982-83
Wage and Salary Income	27,418,096	31,321,238	33,757,203	36,887,873	14.2	7.8	9.3
Dividends, Rent, Interest	5,311,640	6,339,772	7,561,457	8,120,268	19.4	19.3	7.4
Transfer Payments	4,454,012	5,061,093	5,464,089	6,014,621	13.6	8.0	10.1
Less Social Insurance Contributions	1,408,297	1,715,633	1,787,142	1,903,454	21.8	4.2	6.5
Personal Income	35,767,650	41,001,740	44,154,750	48,190,190	14.7	7.7	9.1
Real Personal Income	20,021,400	20,969,800	21,455,200	22,269,000	4.7	2.3	3.8

Note: Components may not add to Personal Income due to rounding and the residence adjustment factor.

As a matter of fact, the data throughout these tables indicate that the Louisiana economy *has not been hit quite as hard* by the recession as the nation in general.

Manufacturing employment is projected to decline in 1982, and to continue to drop again in 1983, although at lower rates. In essence, *the forecast for 1983 is for manufacturing to remain relatively stagnant in Louisiana.* This is due to the combination of a very modest increase in manufacturing activity at the national level and a tendency for Louisiana manufacturing to lag slightly behind the nation during economic recoveries. In addition, Louisiana's manufacturers, especially the petrochemical group, are facing increasing competition throughout the world. Putting all of these events together, the national recovery would have to be *exceptional* for Louisiana manufacturers to enjoy a vigorous recovery in 1983.

Construction, mining, and transportation employment—the other core industries in the state—are projected to rise in 1983. Construction in Louisiana *will pick up* due to falling interest rates and increased activity in the mining sector. The lethargy in manufacturing activity, however, will tend to dampen the recovery in construction. Transportation employment has increased very rapidly since the mid-1970s and this growth is projected to continue in 1983. In fact, the estimated 1982 growth of 2.0 percent is the *slowest* growth in transportation employment since 1976.

Support industries can be defined as industries that primarily cater to Louisiana customers. Growth in these sectors depends heavily on employment trends in the core industries discussed above. Thus, these support industries depend heavily on the overall vitality of the state's economy and not so much on movements by their counterparts at the national level. Given the declining employment in the manufacturing sectors of the Louisiana economy, these supporting sectors are estimated to be very weak in 1982 and are projected to grow very slowly in 1983.

Federal, state, and local government employment is expected to be stable in 1982 and 1983. No major policy changes have been incorporated into the forecasting model that would allow for a significant rise or fall in this category.

Income Estimates

Actual and projected data for this income group are given in *Table 3*. In the model, wage, salary, and proprietor's income in each two-digit *SIC* category depends on employment in the particular industry and on the prices of the products and services sold. The next-to-last column in this table reveals that income will rise in most industries in 1982 despite the employment drops projected in *Table 2*. This is because the positive influence on income of price increases will more than offset the negative affects of the employment declines.

Notice that the price impacts are especially pronounced in the services industry, where income is expected to rise some 19.3 percent in 1982, even though employment is expected to fall by 2.7 percent. Inflationary tendencies have historically been more important than employment in affecting service income and, in fact, the costs of some of these services have outstripped the growth in the general price level.

The only areas expected to feel a drop in income in 1982 will be the manufacturing sector, where employment declines are projected to be too severe to be offset by price increases; and farm income, which is experiencing both employment and price declines.

For 1983, positive income growth is expected in all sectors, with the services, mining, construction, and agricultural services sector leading the pack. Especially strong growth should also occur in the transportation/communications/public utilities industry.

Table 4 contains the data on Louisiana personal income by major source. The data in the first row are tabulated from *Table 3*. Wage, salary, and proprietors income is far and away the largest of the major income categories.

Dividends, rent, and interest income is projected to enjoy strong growth in both 1982 and 1983. High interest rates in 1982 and a recovering economy in 1983 serve to bolster this income source. Too, a continuing depressed housing market has forced more and more individuals into apartments, thus driving up rental income.

Transfer payments, which include welfare and social security payments, are expected to grow in 1982 and 1983, but at slower rates than in 1981. This slowdown in growth can be attributed to a number of factors: (1) the size of most transfer payments are tied to the consumer price index (*CPI*), so as the *CPI* growth rate falls, so will the growth in transfer payments; (2) as the economy recovers, more individuals will not require public assistance; and (3) legislated cuts at the federal level may have reduced the rate of growth in those payments.

According to *Table 4*, nominal personal income is forecasted to grow at a 7.7 percent rate in 1982 and by 9.1 percent in 1983. However, if one adjusts these figures for expected inflation, real personal income is projected to grow by only 2.3 percent in 1982, and at a faster, but still modest, 3.8 percent rate in 1983. It is worth mentioning that the comparable numbers for growth in U.S. real personal income are expected to be 0.5 percent and 3.0 percent, respectively. This, again, points to the tendency of Louisiana not to be hit as severely by the recession as the rest of the nation.

Population and Per Capita Income

In *Table 5*, population and per capita income figures are presented. The model predicts that population growth rates will slow considerably in 1982 and 1983 from their 1981 performance. The primary reason for this is basically economic. An important factor in the state's population growth is net migration, that is, the number of people who migrate to Louisiana from other states. In 1981, because the Louisiana economy was doing quite well, relative to its sister states, many people migrated to Louisiana to find work—particularly in the oil fields of South Louisiana. But as the price of oil has fallen and drilling activity has receded, and as the impact of the national recession finally had its impact on the state, this migration trend should slow considerably, which will lead to a lowering in Louisiana's population growth rate in 1982 and 1983.

In per capita terms, real income in 1982 is expected to fall, while nominal income will rise by 6.2 percent. For 1983 per capital real income is projected to rise by 2.4 percent, with nominal per capita income projected to rise by 7.7 percent.

Finance Forecast

Table 6 contains the model forecast for the financial sector of the Louisiana economy. As *Figure 10* illustrates, deposits, loans, and asset levels in bank and thrift institutions are dependent primarily on the behavior of Louisiana personal income, interest rates, and Federal Reserve monetary policy. Given the slowdown expected in Louisiana personal income, growth rates in deposit, asset, and loan activity in commercial banks in deposits and loans at banks will pick up in 1983, as the state economy begins to recover. The model projects that the recovery will put pressure on banks to use their deposits more on funding loans (up 11.7 percent) rather than on security purchases (up only 4.4 percent) in 1983.

Deposits and asset levels at thrift institutions are not expected to grow as fast in 1982 as those same factors in the banking industry. However, as interest rates continue to fall gradually, and as the housing industry begins to recover, thrift deposit and asset growth is expected to rebound in 1983.

Energy Components

The energy sector of the model has two components, a production sub-sector and a consumption sub-sector. Energy projection in Louisiana refers to oil and natural gas production. Both of these resources have been declining since the early 1970s. In 1982 this decline is expected to continue, with a 0.8 percent drop in natural gas production and a 2.5 percent drop in oil and condensate output. In 1983 natural gas is predicted to fall by 3.0 percent, but oil/condensate production is projected to stabilize at around 187 million barrels per year.

It should be emphasized that this leveling in oil and gas production is not expected to signal the beginning of a new trend. The model bases energy production in a given year on the level of drilling activity experienced approximately two years earlier. Thus, the projected leveling in output shown in *Table 7* is primarily based on the relatively high drilling levels of 1980 and 1981. However, notice that the model is predicting a noticeable drop in drilling activity in 1982 and 1983; leading one to expect a resumption of production declines in 1984 and 1985, unless sizeable increases in the price of oil or natural gas lead to a resurgence in drilling activity. Electricity and natural gas consumption are predicted to decline in 1982 and remain very stable in 1983.

The 1982 declines are based on the rising prices of these products and on the stagnant state economy. The 1983 projections suggest some moderation in these declines, when the restraint imposed by rising real prices will be particularly offset by the effects of a recovering economy. Commercial and industrial electricity consumption is, by far, the sector most sensitive to price and economic activity changes according to the model. This is revealed by a dramatic expected reduction in electricity usage in 1982, and a further small drop in 1983.

TABLE 5
LOUISIANA POPULATION AND INCOME PER CAPITA

Sector	Annual		Projected		Average Annual Growth Rate		
	1980	1981	1982	1983	1980-81	1981-82	1982-83
Population (thousands)	4,214.6	4,307.8	4,369.8	4,427.7	2.2	1.4	1.3
Nominal Income Per Capita	$8,488	$9,517	$10,104	$10,883	12.1	6.2	7.7
Real Income Per Capita (1972 prices)	$4,751	$4,868	$ 4,910	$ 5,029	2.5	−0.8	2.4

TABLE 6
LOUISIANA FINANCIAL DATA
(Thousands of Dollars)

Sector	Actual		Projected		Average Annual Growth Rate		
	1980	1981	1982	1983	1980-81	1981-82	1982-83
Commercial Banks:							
Total Deposits:	21,080,140	23,829,580	25,911,874	28,258,265	13.0	8.7	9.1
Total Assets	24,796,800	28,401,760	31,018,115	33,920,633	14.6	9.2	9.4
Total Loans	12,809,660	14,784,420	15,967,585	17,840,072	15.5	8.0	11.7
Securities	6,914,805	7,622,252	8,308,113	8,670,740	10.2	9.0	4.4
Savings and Loan Institutions:							
Savings Deposits	7,310,909	7,787,000	8,296,000	9,272,400	6.5	6.5	11.8
Total Assets	8,455,735	9,140,000	9,752,400	10,915,300	8.1	6.7	11.9

Summary

The forecasts contained in *Tables 1* through 7 reveal a state economy weakened in 1982 by a combination of falling oil prices and a national recession. The 1983 outlook is for a better experience than in 1982, though the expected growth can hardly be called spectacular. Employment gains should be very modest, but real income gains should be more substantial. Some sectors will do well, but on the average, the state will not return to the high employment status it achieved in 1981.

This Louisiana econometric model is the result of a fifteen-month effort of building data bases, constructing equations, and establishing the interlocking nature of the model. Funding for this first stage of the model was provided by a $65,000 grant from the Louisiana Board of Regents under its research and development program.

The model needs further refining. As we have worked with it, certain problem areas have arisen that we know need addressing. For example, initial projections were made for the loan mix in both bank and thrift institutions. These failed to perform properly and are being reworked. Furthermore, the model was presented to the public at an open conference in December 1982, where numerous helpful comments, offered by the meeting's participants, have been used to further refinement. As a result, future initial model projections will be presented to a panel of experts from each representative area for input before releasing a final forecast. In addition to these refinements, further additions to the model are under development.

In the first half of 1983, the energy sector will be expanded under a $17,500 grant from LSU's Center for Energy Studies. A proposal also has been turned in to the Board of Regents for the development of models for the state's major cities, and to examine finer industry level activity below the two-digit *SIC* categories—such as furniture and fixtures, petroleum refining, primary metals, and so forth.

Hopefully, through efforts such as these, we will be able to understand our state economy more fully and be able to predict its future course more accurately, with the objective of offering both the private and public sectors better information with which to make decisions.

JAMES A. RICHARDSON is an associate professor of economics at LSU, Baton Rouge. His research interests include national economic policy, as well as state and local financial issues. LOREN C. SCOTT is the associate director of the LSU Division of Research and a professor of economics. His research interests include energy, labor economics, and the Louisiana economy. A. M. M. Jamal is a research economist for the Division of Research. He currently is studying the impact of coal exports through Louisiana and is involved in the development of the Louisiana Occupational Information System for the State Department of Labor.

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TABLE 7
LOUISIANA ENERGY PRODUCTION AND CONSUMPTION

Sector	Actual 1980	Actual 1981	Projected 1982	Projected 1983	Average Annual Growth Rate 1960-81	Average Annual Growth Rate 1981-82	Average Annual Growth Rate 1982-83
Energy Supply:							
Natural Gas Production[a]	2,756	2,549	2,528	2,451	-7.6	-0.8	-3.0
Oil and Condensate Production[b]	215,500	204,000	187,631	187,196	-10.8	-2.5	0.2
Producing Oil Wells	21,885	22,966	24,193	24,897	5.0	5.3	2.9
Producing Gas Wells	12,188	13,262	13,987	14,602	9.1	5.5	4.4
Active Rigs (monthly average)	427	456	400	390	6.8	-12.3	-2.5
Energy Consumption:							
Electricity:[c]							
Residential	17,820	18,652	17,742	18,294	4.5	-4.9	3.4
Commercial and Industrial	37,890	38,039	31,109	30,763	0.5	-18.2	-1.1
Natural Gas:[d]							
Residential	73,093	80,065[E]	77,870	77,015	9.5	-2.7	-1.1
Commercial	27,651	28,205[E]	27,359	27,167	2.0	-3.0	-0.7
Industrial	1,422,947	1,465,635[E]	1,478,826	1,501,008	3.0	0.9	1.5

Notes:

[a] billions of cubic feet
[b] thousands of barrels
[c] millions of kilowat hours
[d] millions of cubic feet

[E] Estimates

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[1] The projections described in this section are not precisely the same as those given at our conference held at LSU on December 7, 1982. Revisions were made to forecasting equations and final forecasts were based on helpful comments made by participants at that conference.

[2] The actual figures shown, which form the basis for the forecasts, are from the U.S. Bureau of Economic Analysis. These data are *not* strictly comparable to those released each month by the Louisiana Office of Employment Security.

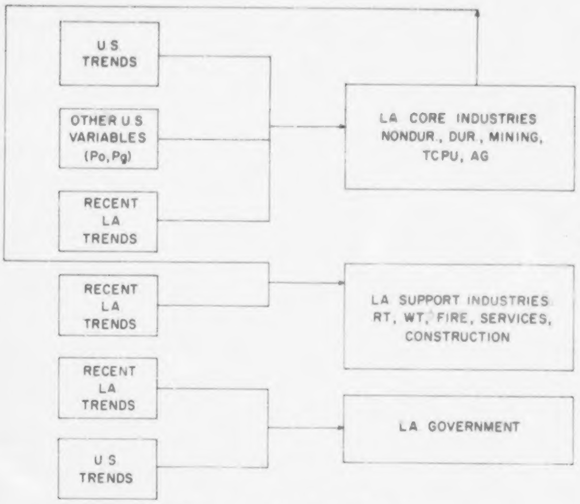

U S TRENDS
OTHER U S VARIABLES (Po, Pg)
RECENT LA TRENDS
LA CORE INDUSTRIES NONDUR., DUR, MINING, TCPU, AG
RECENT LA TRENDS
LA SUPPORT INDUSTRIES RT, WT, FIRE, SERVICES, CONSTRUCTION
RECENT LA TRENDS
U S TRENDS
LA GOVERNMENT

FIGURE 7. LOUISIANA EMPLOYMENT

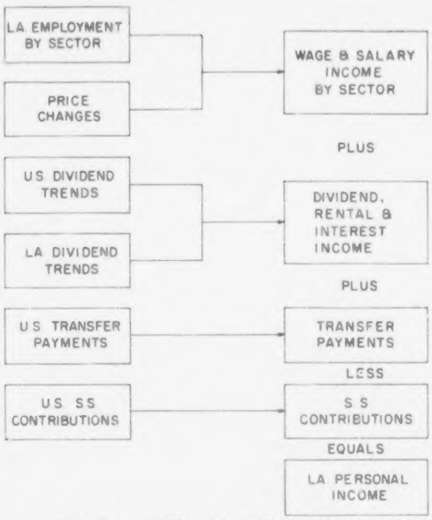

LA EMPLOYMENT BY SECTOR
PRICE CHANGES
WAGE & SALARY INCOME BY SECTOR
PLUS
U S DIVIDEND TRENDS
LA DIVIDEND TRENDS
DIVIDEND, RENTAL & INTEREST INCOME
PLUS
U S TRANSFER PAYMENTS
TRANSFER PAYMENTS
LESS
U S SS CONTRIBUTIONS
S S CONTRIBUTIONS
EQUALS
LA PERSONAL INCOME

FIGURE 8. LOUISIANA INCOME BY SOURCE

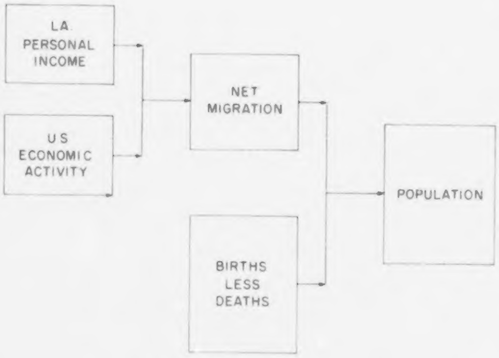

LA PERSONAL INCOME
U S ECONOMIC ACTIVITY
NET MIGRATION
BIRTHS LESS DEATHS
POPULATION

FIGURE 9. POPULATION

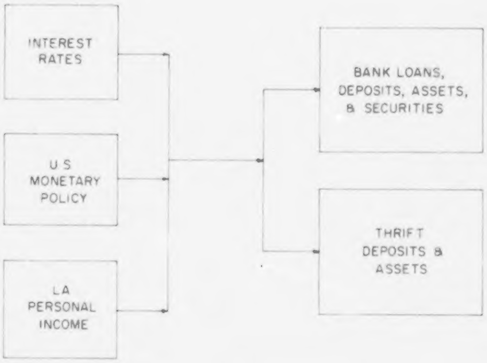

INTEREST RATES
U S MONETARY POLICY
LA PERSONAL INCOME
BANK LOANS, DEPOSITS, ASSETS, & SECURITIES
THRIFT DEPOSITS & ASSETS

FIGURE 10. FINANCIAL SECTOR

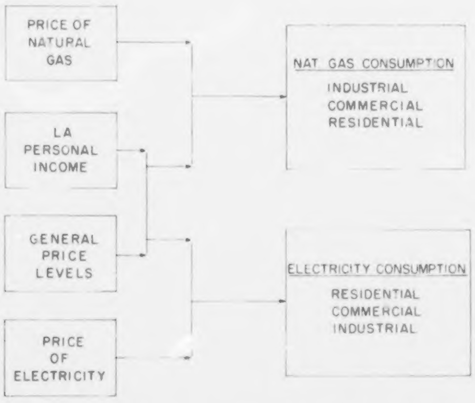

PRICE OF NATURAL GAS
LA PERSONAL INCOME
GENERAL PRICE LEVELS
PRICE OF ELECTRICITY
NAT GAS CONSUMPTION
INDUSTRIAL COMMERCIAL RESIDENTIAL
ELECTRICITY CONSUMPTION
RESIDENTIAL COMMERCIAL INDUSTRIAL

FIGURE 11. ENERGY CONSUMPTION

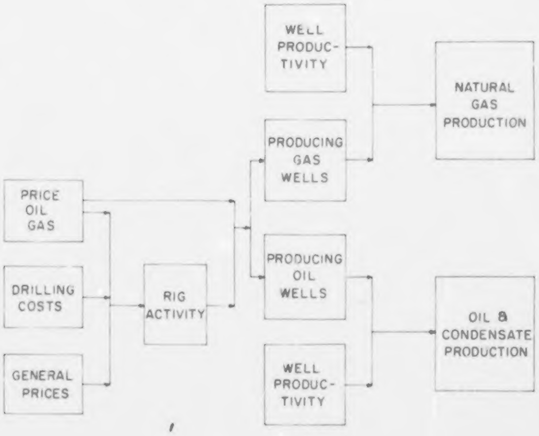

WELL PRODUC-TIVITY
PRODUCING GAS WELLS
NATURAL GAS PRODUCTION
PRICE OIL GAS
DRILLING COSTS
GENERAL PRICES
RIG ACTIVITY
PRODUCING OIL WELLS
WELL PRODUC-TIVITY
OIL & CONDENSATE PRODUCTION

FIGURE 12. ENERGY PRODUCTION

NATIONAL NEWS

Major Changes Eyed for Feds

A new bill has introduced Congressional legislation which would consolidate the regulatory functions of the *Interstate Commerce Commission, Federal Maritime Commission,* and the *Civil Aeronautics Board* into a new single regulatory agency.

The bill would ease many of the freight restrictions imposed on the multimodal ownership of transportation companies. The Department of Transportation, which is not in accord with the idea of a super transport agency, is considering asking the Congress for legislation to totally deregulate the freight forwarder industry, except for safety and insurance requirements, with provision for all antitrust immunity for trucking industry rate making to be eliminated as well.

In three recent decisions the Interstate Commerce Commission voted to exempt export coal, boxcar traffic and most agricultural commodities moving via rail from rate regulation. If these decisions withstand court review, rail rates will no longer have to be filed with the agency. Barring an anticipated court stay, the export coal decision will go into effect ninety days after the decision is issued by the agency, with the boxcar decision going into effect six months after it is served by the commission. The commission also exempted farm products, except grain, soybeans and sunflower seed, from economic regulation in a related decision, in an attempt to allow railroads to compete more effectively with truckers, who are already exempt from regulation.

What's that Paper Worth?

People completing four years of college can expect lifetime earnings averaging nearly 40 percent higher than high school graduates, according to a report issued by the U.S. Commerce Department.

Men with four years of college should expect lifetime earnings between $1.190 million and $2.750 million, while male high school graduates can expect from $860,000 to $1.870 million. Lifetime earnings for women with four years of college should be $520,000 to $1.120 million, while the range for women high school graduates is from $380,000 to $800,000. All figures are for money earned between the ages of 18 and 64 and are expressed in 1981 dollars.

Copies of the report, *Lifetime Earnings Estimates for Men and Women in the United States: 1979,* Series P-60, No. 139 (GOPO Stock No. 003-001-90725-9), are available for $4.50 each prepaid from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 or from Commerce district offices in major cities.

Battle Against Math Illiteracy

A new program called *MATHCOUNTS* is the first nationwide effort of education, industry, and the engineering profession to combat the growing problem of math illiteracy. The program is being sponsored by the National Society of Professional Engineers, the National Council of Teachers of Mathematics, the CNA Insurance Companies and the National Science Foundation.

In the next few months U.S. junior high teachers will receive *MATHCOUNTS* kits from local chapters of the engineering society and CNA which explain the combination coaching program and contests. Local affiliates of the math teacher's council will assist in organizing schools. The National Science Foundation will make its data bases available and will facilitate government contacts for the participants.

Beginning this September and through the school year, as many as 5.8 million seventh and eighth grade students can enter the *MATHCOUNTS* program and have the opportunity to be coached in accelerated math topics such as probability and statistics, linear algebra and polynomials. They will then be able to participate in a series of competitions at local, state and national levels in Spring of 1984. Students will compete individually and in teams in both oral and written exams. Winners will receive prizes and trips to Washington, D.C. for the national finals, funded by CNA and the National Society of Professional Engineers.

Washington to Get World Trade Center

Construction of the *Bay of the Americas*, a $586 million world trade center and multi-purpose complex, to be located ten minutes from downtown Washington, D.C., will begin this summer. The World Trade Center will be located in the 400-acre complex as part of the 1.6 million square feet of high rise office space. The new facility will provide space for importers and exporters, international product and food displays, freight forwarders and brokers, international banks, airlines and shipping companies, travel agents, and for foreign governments interested in expanding markets for their goods and tourism.

America on the Move

Nearly half of the U.S. population changed homes between 1975 and 1980, tabulations from the 1980 *Census* show. Statistics compiled by the Commerce Department's Census Bureau indicate that of the 210 million Americans five years old and more, nearly 94 million—about 44.5 percent—had changed residence between 1975 and 1980. About 25.1 percent had moved within the same county, 9.8 percent to another county

(continued on page 29)

COLLEGE HIGHLIGHTS

Alumni Receive Recognition

Three alumni of the Louisiana State University chapter of *Beta Alpha Psi*, the national accounting fraternity, received *Accountants of the Year* awards at the recent national fraternal meeting held in San Diego.

Louisiana State University's winners included **Dr. Doyle Z. Williams,** dean of the School of Accounting, University of Southern California, education division award; **Paul LeBlanc,** chairman of the Board of Arthur Anderson & Co., public accounting division award; and **A. L. Monroe,** president of Esso Inter-America, was recognized in the field of industry.

Dr. Jerry E. Trapnell, faculty advisor to the LSU chapter, said it was the fifth consecutive year the LSU chapter received a superior rating from the national organization. The superior rating is the top recognition given at the annual meeting and is based on participation in professional meetings, field trips, social, and community service activities.

Recent College Awards and Publications

Stephen Looney, assistant professor in the department of Quantitative Business Analysis, has been awarded a summer faculty research grant from the Louisiana State University Council on Research. The project will entail the development and application of a new technique for risk estimation.

Kenneth N. Orbach, associate professor of accounting, was among the sixty-nine noted tax professors attending the Eighth Annual Faculty Symposium sponsored by Arthur Andersen & Co., an international public accounting and consulting organization. The symposium was held in November at the firm's Center for Professional Education, St. Charles, IL.

Shirley A. White, assistant professor in Business Communications and Office Systems, wrote "*An Analysis of Secretarial Employment Ads with Implications for Curricular Modification*," published in the January 1983 issue of the *Journal of Business Education*.

Instructor of Business Communications and Office Systems **M. Agnes Titkemeyer,** co-author with **Steven Golen, Jack D. Eure,** and **Celeste Powers,** had "*How to Teach Conflict Resolution in a Basic Business Communication Class*," printed in the American Business Communication Association's September bulletin.

Joseph F. Hair, chairman of the Department of Marketing, recently published his textbook, *Sales Management*, with Random House's Business Division.

Marketing Department Assistant Professor **Marsha L. Richins** had her article, "*Negative Word-of-Mouth by Dissatisfied Consumers*," published in the Winter 1983 issue of the *Journal of Marketing*.

Sharon Grimes and **Michael Petruny,** doctoral candidates in the Department of Marketing, won the *Best Doctoral Paper* award recently at the Southwestern Federation of Administrative Disciplines convention in Houston, for their co-effort, "*Perceptual Mapping of Sport Shirts: Differences Between Functionally Identical Products*."

LSU Gets LBA Research Grants

The *Louisiana Bankers Association*, long-time supporter of the College of Business Administration, is providing two permanent summer research grants for the finance department, arranged through the efforts of **Dr. William F. Staats,** Louisiana Bankers Association professor of banking at the University. These grants will allow two regular faculty members to devote the summer to research projects.

According to Staats, the demand for LSU banking graduates continues to increase despite the general economic slowdown across the nation. Staats reported in *les nouvelles*, the College of Business Administration in-house publication, that a record number of banks are recruiting during this school term.

A significant number of banking institutions have sought to hire LSU banking graduates in recent years, said Staats, adding, "the quality of LSU graduates has become more widely known and appreciated in the banking field which is concurrent with the banking institution's expan-

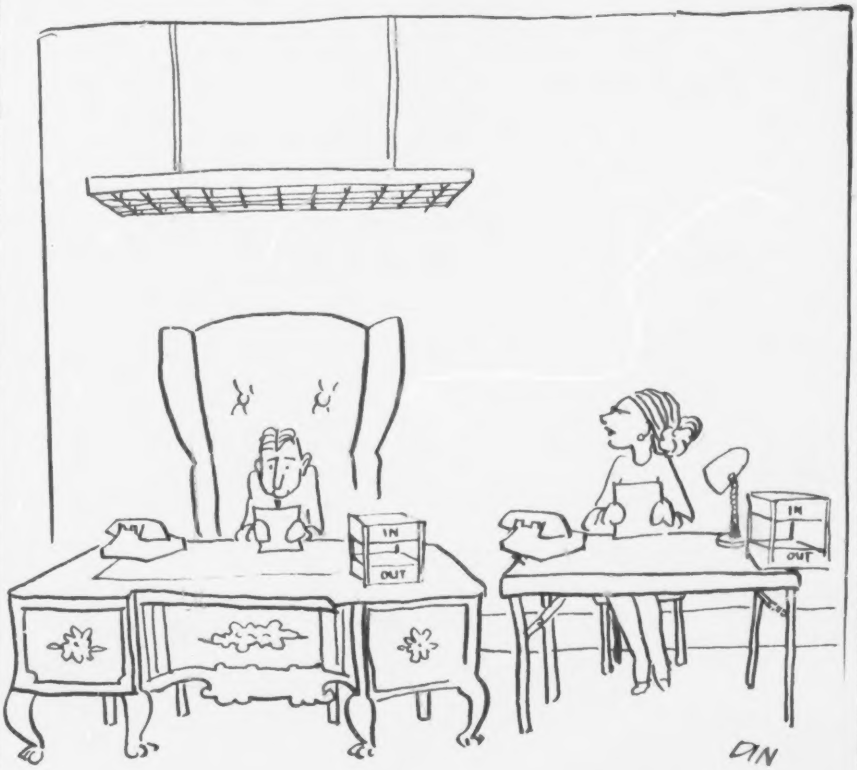
(continued on page 29)

Maynard M. and Carolyn C. Dolecheck

FORUM

Sex Discrimination in Company Management

American women are guaranteed by our laws protection from sex discrimination in employment. Why then do women usually lag behind their male counterparts in both salaries and promotions?



The Equal Pay Act of 1963 and the Civil Rights Act of 1964 were enacted to eradicate sexual discrimination in employment. The objectives of the Equal Pay Act of 1963 were to ensure that women would have job opportunities equal to men and that women would receive equal pay for equal work. In addition, the Civil Rights Act, as amended, prohibits discrimination because of sex (as well as race, color, religion, or national origin) in all employment practices, including hiring, firing, promotion, compensation, and other terms, privileges, and conditions of employment. However, the national earnings gap between men and women remained unchanged from 1967 to 1978,[1] and recent data show that women continue to lag well behind men in employment status.[2]

A college education for a woman does little to change the salary gap; in 1978 women with four years of college earned about the same as men with one to three years of high school.[3] These women earning college degrees have in the past typically majored in areas other than business and thus were employed in low-paying jobs such as teaching and nursing; however, this trend is changing dramatically.

A recent survey by the College Board, a school systems group, revealed that women's interest in business has tripled since 1973, and more female than male high school seniors show an interest in studying business in college. This interest is reflected today in the number of women who are enrolling in collegiate schools of business. As an example, for the past two years (1980-1982) more than half of the graduates of the Northeast Louisiana University College of Business Administration were women; and this trend is evident at other universities. These women graduates are typically career oriented, aware of their rights, and ambitious.

Purpose and Design of Study

With these facts in mind, the authors proposed to determine if salary and promotion discrimination practices are applied toward women with bachelor's degrees in business, and to identify possible organizational problems resulting from such discrimination. In addition, recommendations for removing company barriers to women and establishing self-help programs were considered.

As the first step toward isolating employment economic differences of male and female graduates, beginning salaries had to be compared. Sketchy data for the academic years 1980-81 and 1981-82 from the Placement Bureau at Northeast Louisiana University indicate that women and men with college of business degrees with similar majors start their jobs at comparable salaries. Therefore, the question became: "Does employment discrimination of women occur after they are on the job?"

To seek an answer, a questionnaire was distributed in the summer of 1982 to random samples of 600 men and 600 women who had graduated from the Northeast Louisiana University College of Business Administration (an AACSB-accredited school with more than 2,000 students) during the sixteen-year period from 1966-1981. The initial mailing and a follow-up resulted in a 30-percent usable response (unemployed respondents were excluded from the study). These graduates were asked questions pertaining to income, type of job, sex, geographic location, and length of time on the job since graduation.

Survey Results

The data in the following sections reveal the extent of salary and job level disparities due to sex. As 73.4 percent of the respondents are employed in Louisiana and 92 percent in the South, the conclusions are most applicable to Louisiana in particular and the South in general.

Median income figures of the male and female respondents controlling for time in the workforce since graduation, shown in *Table 1*, reveal that the median annual income of women, compared with that of men, is $3,339 less for those employed fewer than three years. The differential becomes progressively greater as time on the job increases. At twelve-years-or-more in the workforce since graduation, the differential is $15,667. While seniority for a woman may be the same as for a man, discontinuous work experience due to child bearing and rearing could hinder a woman's advancement in an organization. The researchers doubt that such a factor could explain more than a little of the differential.

The differential of $3,339 in median salaries of men and women on the job fewer than three years is difficult to explain if starting salaries are in fact nearly the same. Either the figures compiled by the NLU Placement Office are inaccurate or men are receiving substantial raises, shortly after initial employment, that women are not. Regardless of the reason, the significant finding is that male respondents are earning more than women; and the differential increases dramatically with length of time on the job.

Median annual incomes of males and females compared by job titles or level are also revealing. As depicted in *Table 2*, the differential in median income is $6,300 for first-line supervisors and continues to widen at higher managerial levels. That the differential is smallest for staff and technical jobs ($4,545) is particularly significant since this classification includes women working in clerical and secretarial jobs, which traditionally have been low paying. The low pay usually has been attributed to the fact that clerical and secretarial jobs are dominated by females.

Job-Level Differences

In an attempt to determine if promotion discrimination exists and to compare types of jobs held by men and women, *Table 3* shows the relationship of job titles for male and females, for different lengths of time on the job since graduation from college. For respondents who have been on the job fewer than three years, 25 percent of the males, compared to 9.8 percent of the females, classify themselves as middle managers or above. While the percentage of both male and female respondents classifying themselves as middle manager or above increases with time on the job, the differential in percentages by sex remains nearly the same.

On the other hand, for respondents who have been on the job fewer than three years, 78.7 percent of the females classify themselves in staff and technical jobs, while only 53.1 percent of the males indicate this classification. In comparison, for respondents who have been on the job nine or more years, only 13.8 percent of the men, compared with 45.8 percent of the women, are in staff and technical positions.

Job titles may be misleading, however. Research by Patty G. Campbell indicates that 36 percent of women in middle management positions believe their job titles do not accurately reflect their duties.[4] Furthermore, certain types of jobs

Table 1
MEDIAN ANNUAL INCOME OF MALE AND FEMALE CBA GRADUATES CLASSIFIED BY TIME IN THE WORKFORCE SINCE COLLEGE GRADUATION
July, 1982
(322 Respondents)

	Time in Work Force					
Sex	0 to 3 Years	3 to 6 Years	6 to 9 Years	9 to 12 Years	12 or more Years	All Years
Male	$19,714	$22,000	$28,000	$33,500	$40,667	$27,684
Female	$16,375	$17,333	$20,000	$20,000	$25,000	$18,000

Table 2
MEDIAN ANNUAL INCOME OF MALE AND FEMALE CBA GRADUATES CLASSIFIED BY JOB TITLE
July, 1982
(332 respondents)

	Job Title					
Sex	Top Mgt.	Middle Mgt.	First Line Supervisor	Staff/ Technical	Sales	All Titles
Males	$41,333	$30,400	$24,800	$22,000	$24,500	$27,684
Females	$22,000*	$19,333	$18,500	$17,455	$16,000	$18,000

*Only 6 females in top management level.

may be reduced in importance. Hiring women as managers in areas such as public relations and personnel—typically staff functions—almost always prevents them from moving into the more established and powerful line functions of sales, finance, and production. This tactic can be viewed as a way of accommodating demands for female promotion while avoiding real challenges to male domination. "There are many ingenious ways to disguise discrimination in hiring and promotion,"[5] says J. H. Foegen.

According to this data, salary and job-level disparities are readily apparent and this discrimination seems to exist for female CBA graduates. Discrimination is less likely to occur with beginning salary offers. However, once these business graduates are on the job, the salary differentials of males and females widen and men occupy upper-level management positions and women dominate staff and technical positions. These conclusions are based upon quantitative data pertaining to salaries, job levels, and time on the job since graduation, with educational levels and geographical location of work being nearly the same for both sexes.

The researchers acknowledge that other factors such as ambition, assertiveness, and job continuity (which are difficult to measure) could have some effect on salaries and job levels of both sexes. However, they realize that, historically, employment disparities have resulted from discriminating practices toward women.

Recommendations

Apparently laws designed to require companies to make job-related decisions with regard to sex are ineffective. Organizations do not seem to be overly concerned about legal action from women who are not promoted and given raises equal to those of men.

From a self-interest point of view, however, management which is male-dominated must change such attitudes if organizations are to increase productivity and profitability. Firms must recognize that women who are unhappy with their treatment often quit their jobs rather than file a complaint. The 1981 Dolecheck study revealed that 25 percent of all female respondents knew of someone who had left her company in the previous three years because of discriminatory treatment.[6] Such turnover is costly to a firm. Even if a women chooses not to quit during times of high unemployment, emotional frustrations are likely to result in lower productivity.

What must be done to hasten the snail's pace of female progress in business? Basically, two approaches should be used:

1. Organizational barriers to female advancement must be removed; and,
2. Women must be made aware of individual self-help programs which they must pursue if they are to advance.

Removal of Barriers

First, top management must make a total commitment to removing all barriers to the advancement of women. Companies with good records of promoting women always have a strong commitment from top management. This attitude must permeate all levels of the organization.

Second, an organization should conduct an internal audit of what it is doing to achieve the goal of equal treatment of its female employees. The following questions (among others) should be answered before

Table 3
RELATIONSHIP BETWEEN JOB TITLE AND SEX CONTROLLING FOR TIME ON JOB SINCE GRADUATION

	Time on Job and Sex									
	0 to 3 Years		3 to 6 Years		6 to 9 Years		9 or more Years		All Years	
Job Title	M	F	M	F	M	F	M	F	M	F
Middle Mgt. & Above	25.0%	9.8%	35.1%	12.0%	38.1%	23.1%	58.5%	37.5%	42.6%	16.8%
First Line Supervisor	6.3	8.2	5.4	20.0	14.3	15.4	13.8	12.5	10.8	13.7
Staff/ Technical	53.1	78.7	40.6	60.0	31.0	53.8	13.8	45.8	30.7	64.0
Sales	15.6	3.3	18.9	8.0	16.7	7.7	13.8	4.2	15.9	5.6
	100% (32)	100% (61)	100% (37)	100% (50)	100% (42)	100% (26)	100% (65)	100% (24)	100% (176)	100% (161)

the organization proceeds to the next phase:

- What company policies exist concerning women?
- How many women are in the organization?
- What types of jobs are they holding?
- What are their educational backgrounds?
- What training programs are available to female employees?
- How do their salary levels compare to those of men?
- What is the female turnover rate compared to those of men in the organization and the industry?

Third, management must set specific objectives it wishes to achieve with regard to its female employees. At the very least, one objective must contain a statement to the effect that women will be given equal opportunities in all employment notices. As an example of a more specific objective, the firm could indicate that X number of women should be in supervisory or management-level line positions (as opposed to staff positions) by a designated time.

Fourth, plans, policies, and procedures must be developed to achieve the objectives. Certainly the organization must establish formal grievance procedures for handling complaints of those who feel unfairly treated. Only 25 percent of the questionnaire respondents reported in the 1981 Dolecheck study that their firms had such statements and procedures.[7] It may be necessary to establish quotas or affirmative-action programs within the organization. As an example of this kind of action, one chief executive of a large firm assures that women in the company move upward in management using an unusual method. He tells some supervisors: "I have just assigned a capable, skillful woman to you. I want her to succeed. If she doesn't, you're the one in trouble, not she."[8] In other words, these men are made mentors of these women.

Finally, controls must be established to measure the success of these plans and procedures toward achieving the objectives for the advancement of women. Periodic audits or reports should reveal the progress of the company plans.

Self-Help Programs

Training programs, either internal or external to the organization, must be provided for women to learn the *tricks of the trade* in management. While many women are earning bachelor's and master's degrees in business and possess the technical skills learned in school, they have to develop an awareness of how business operates as a game. While a few universities are providing such a course, the number is still small; also, while this type course could be very helpful, certain techniques can be taught only by business executives (both women and men) with many years of on-the-job experience.

Women have to be taught how to take risks rather than serve only in supportive roles, to be competitive, to fully integrate their jobs into their lives, and how to become part of the company *informal* network through activities such as golf games, the noon luncheons, the after-hour drinks in the bar, and attending conferences. Women must also be assertive and let supervisors know that they want to move up and are willing to work to do so. They have to announce that their children and other family responsibilities are arranged to allow time for travel, weekend work, or whatever is necessary.

Also, women who have positions of power need to support other women. Quite often, the woman who has worked long, hard years to rise to the top believes that all other women should have to work as hard as she did; and therefore she will not give guidance and assistance.

Perhaps one female respondent had part of the solution when she said :

> **"Once the World War II men die off, we will fare better than the younger men with whom we have gone to school. They know we can do the job as well (or better) than they can. Too, their wives work, so they don't think we should be home keeping houses and having babies."**

The authors are naive enough to agree totally with this statement. Young men (as well as women) learn attitudes and mimic their fathers and other men; therefore, many specific overt actions on the part of organizations and women must be taken if female employment discrimination is eradicated. The change will not automatically occur as younger men become executives. Perhaps organizations will soon realize that this untapped source of highly-educated and career-minded business women can help improve company productivity and, thus, profitability.

ENDNOTES

[1] Janice Neipert Hedges and Earl F. Mellor, "*Weekly and Hourly Earnings of U.S. Workers, 1967-78*, **Monthly Labor Review**, August, 1979, p. 31.

[2] *United States Commission on Civil Rights, Unemployment and Underemployment Among Blacks, Hispanics, and Women*, **Clearinghouse Publication 74** (November 1982), p. 2.

[3] Hedges and Mellor, p. 35.

[4] Patty Glover Campbell, "*A Comparison of Men and Women in Middle Management Positions in a Southeastern State*." **The Delta Pi Epsilon Journal** (January 1980), pp. 1-9.

[5] J. H. Foegen, "*Double-Dipping the Labor Market: Sex-Bias Cause?*" **Labor Law Journal** (March 1979), pp. 180-182.

[6] M. Dolecheck and C. Dolecheck, "*Employment Sex Discrimination During the Past Three Years of Women with Business Degrees*." **Northeast AIDS Proceedings**, American Institute for Decision Sciences 11th Annual Regional Conference (April 1982), pp. 72-74.

[7] Dolecheck, p. 74.

[8] Kathleen Fury, "*Getting Ahead! What You Must Give—What You Get Back*." **Women in the Work Force: A Special Report.**

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Anthony J. Greco

Decline and Fall of The Fair Trade Law

DR
TICHENOR'S

Resale price maintenance (RPM) is the practice whereby manufacturers of brand-name or trademark goods stipulate and seek to enforce minimum, maximum, or actual wholesale and retail prices of those goods as they progress through the distribution chain to consumers. It has been most successfully applied in the sale of brand-name goods that are highly advertised, nonperishable, and widely distributed, such as drugs and alcoholic beverages. This practice flourished in the United States for approximately four decades. Although primarily faded from the scene, RPM exerted considerable economic influence on the Louisiana economy during its heyday, until it gained the attention of a New Orleans grocer.

Resale price maintenance in Louisiana began in 1936 with the establishment of its legal foundation through the Louisiana Fair Trade Act. The system continued unchecked in the state until 1956, when John Schwegmann Jr., a New Orleans grocery retailer who had struggled against resale price maintenance for years, succeeded in rendering it virtually impotent in Louisiana.

The practice has purported advantages for both manufacturers and distributors (mainly retailers). Regarding manufacturers, it is contended that RPM prevents loss-leader selling, the practice wherein a retailer offers a product at a price below his cost so as to attract customers into his store in the hope that additional purchases will be made. Manufacturers are often concerned about this practice because they fear it is detrimental to the reputation or good-will of their brand name. This is notwithstanding the fact that the evidence of manufacturers actually being damaged is very rare.

Some manufacturers have also asserted retail outlets may refuse to stock their products unless guaranteed a good profit margin through some price stipulation of the manufacturers. It is generally true, however, that retailers will stock a good if the demand for it is strong enough, even if no such guarantees are provided.

Manufacturers occasionally have favored RPM as a vehicle to ease pressure on them from retailers for lower purchase prices. Retailers who are subject to active price competition that reduces their profit margins tend to seek some relief through lower prices from the manufacturers. While this may give some temporary aid to their profit margins, retailers are still likely to experience other forms (nonprice) of competition tending to lower their profit margins. They then return to the manufacturers for additional relief. Hence, the manufacturers may find RPM an inadequate means of dealing effectively with pressure from retailers.

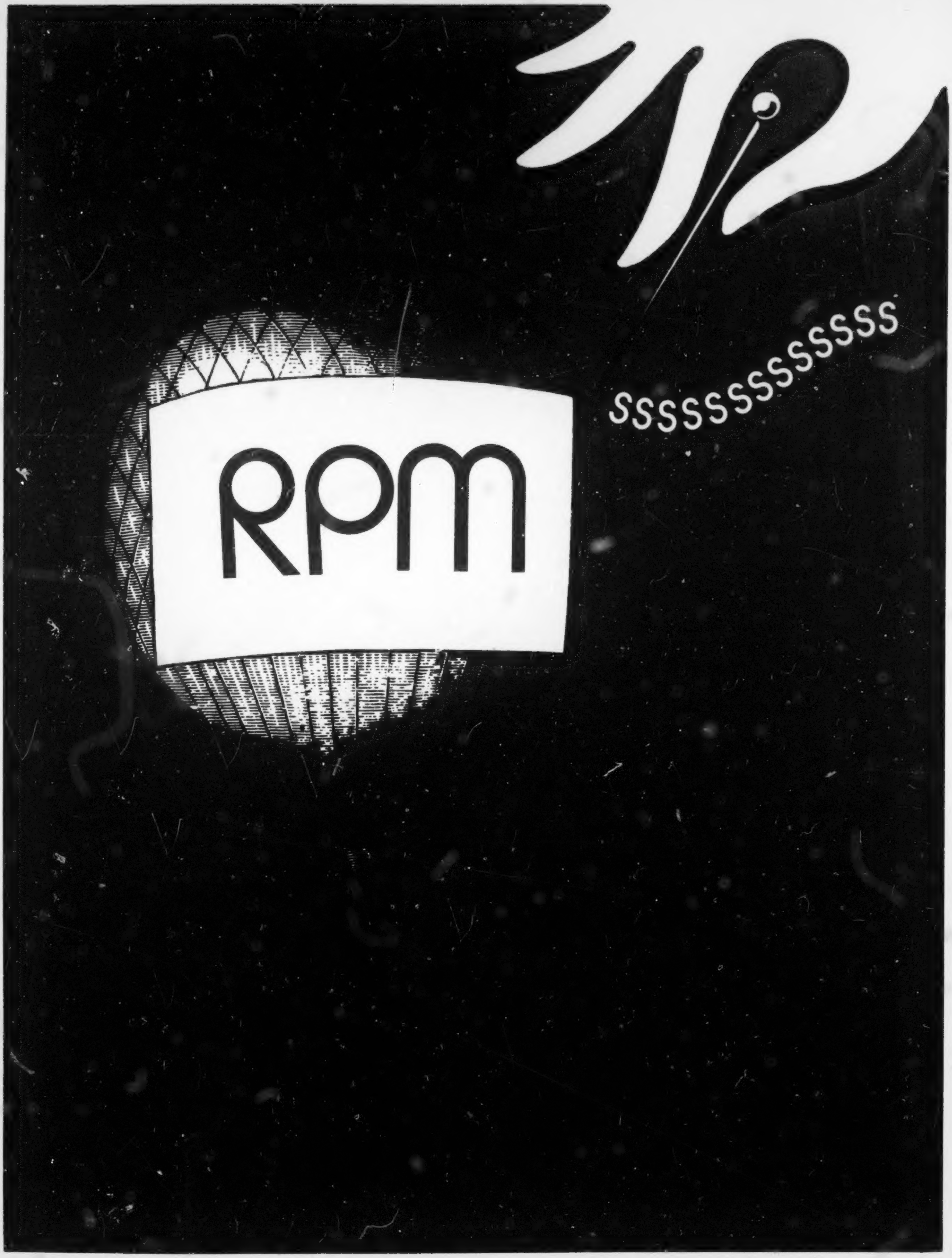
Finally, some manufacturers fear that some specialized services will not be provided at all unless retailers have guaranteed prices and margins. Illustrative of this argument is the claim that book dealers will refuse to handle old or rare books unless a good margin is provided on the best sellers. However, this whole argument is rather weak because if consumers want a product or a service badly enough, they will be willing to pay for it. There is really no reason to impose some of the costs of such goods or services on nonusers.

Implicit in much of the foregoing discussion is the principal advantage accruing to retailers. That purported advantage is the suppression of rigorous competition on price within the sale of a specific brand-name good. This, in the short run, provides retailers with higher prices and profit margins. Nevertheless, it eventually works against retailers because high prices and profit margins attract additional rival retailers and brands, both of which tend to drive costs up and prices down.

Contractual RPM Goes to Court

Contractual RPM is the practice whereby a manufacturer requires his distributors by contact to maintain his stipulated prices. American courts have been rather consistent in outlawing such arrangements.

Perhaps the leading case involving contractual RPM is the Dr. Miles case.[1] The Dr. Miles Company had entered into contracts with more than 400 wholesalers and 25,000 retailers to maintain stipulated prices at both the wholesale and retail levels. The John D. Park and Sons Company, which had not signed a contract with Dr. Miles, was selling some of the latter's medicines below the stipulated prices. The Miles Company sought to enjoin



RPM
SSSSSSSSSSSSS

such sales through court action. The U.S. Supreme Court eventually held that the resale price agreements were illegal restraints of trade which violated the Sherman Antitrust Act in that they substantially lessened or eliminated competition among wholesalers and retailers of Dr. Miles' products.[2]

Such rulings placed resale price maintenance in a rather precarious position. This was greatly modified by the Supreme Court's decision in the Colgate Case.[3] Unlike Dr. Miles, Colgate had not made use of any written agreements to get its prices accepted. Rather, it used various forms of persuasion, such as supplying retailers with lists of suggested prices which they were asked to follow. If the dealers did not adhere to these prices, Colgate refused to deal with them again. Furthermore, Colgate encouraged dealers to supply information on price cutters.

The federal government filed a suit against Colgate charging a violation of the Sherman Act. Failing to find any evidence of written contracts or combinations, however, the Supreme Court upheld Colgate's practices. The Court contended a private business could engage in dealer selection and refusals to deal. Despite this decision, the ruling of the Dr. Miles case applied whenever there existed a written agreement or one which could be inferred from the specific circumstances involved in any particular cases.

In addition to allowing RPM through dealer selections and refusals to sell to price cutters, the courts, prior to the 1930s, allowed only one other method of maintaining prices. This was the use of consignment selling arrangements, wherein manufacturers could fix the prices of their goods sold by agents. Under such situations, the manufacturer retains title to the products in question until the distributors sell them to the ultimate consumers. The legality of this practice was established in the General Electric decision.[4]

Fair Trade Laws

Events of the 1930s greatly enhanced the practice of RPM. Beset by generally depressed times and rapid expansion of chain stores, the small independent retailers demanded legalization of a price maintenance system. Proponents labeled such laws "*fair trade laws*," a name which has persisted to the present.

The first state to respond was California, which passed legislation in 1931 authorizing RPM contracts on trade-marked or brand-named goods in free and open competition with goods of the same general class. Exceptions were provided for close-out sales, sales of damaged and deteriorated goods, and court-ordered sales of goods.

The California law was amended in 1933 to include the nonsigner clause, a provision whereby a manufacturer of a trade-marked or brand-named good had only to sign a resale price maintenance contract with one retailer in a state in order to bind all retailers within that state to his stipulated prices. Fair trade proponents had recognized the necessity of such a provision because it would be well-nigh impossible for a manufacturer to affect a contract with every retailer of his products.

Similar laws were adopted by several other states. A test of the constitutionality of such laws was quickly provided in the Old Dearborn case.[5] Here, the U.S. Supreme Court upheld the Illinois fair trade law as constitutional on the ground that it protected the goodwill of the Seagram Corporation's brand name whiskey.

Even though, by implication, the Supreme Court had upheld all state fair trade laws, these laws were only applicable within the individual states having such laws. That is, they covered only intrastate commercial transactions. They did not confer any immunity under federal law, namely the Sherman Antitrust and the Federal Trade Commission Acts, where interstate commerce was involved.

Therefore, fair trade proponents organized into lobbying groups, such as the National Association of Retail Druggists, and largely through their efforts, Congress passed the Miller-Tydings Fair Trade Act in 1937. This act exempted resale price maintenance contracts from section one of the Sherman Act which forbids, among other things, every contract in restraint of interstate trade or commerce. The act also exempted such contracts from section five of the Federal Trade Commission Act, which prohibits all unfair methods of competition. In effect, this law legalized resale price agreements for goods shipped into states where such contracts were legal.

The passage of the Miller-Tydings Act, as expected, encouraged additional states to pass resale price maintenance legislation. From the time of the adoption of the California law in 1931 to the passage of the Miller-Tydings Act in 1937, forty-two states had authorized retail price maintenance agreements. Eventually, this grew to forty-six of the fifty states.

As is the case with most controversial laws, the Miller-Tydings Act went through a series of court tests. Companies employing purported RPM schemes fared poorly in a trio of cases in the 1940s.[6] Even so, none of these actually touched on the constitutionality of the law.

Under Attack

During the early 1950s, however, three important cases rendered the Miller-Tydings Act nearly impotent and, for a time, actually halted RPM. These cases arose out of the controversy over whether or not the Miller-Tydings Act sanctioned the nonsigner provisions of the various state fair trade laws. The controversy evolved because the act made no direct mention of the nonsigner clause. The first two cases involved the Sunbeam Corporation and a nonsigner-mail-order dealer in Pennsylvania, who had sold Sunbeam products at less than the specified prices.[7]

In the first case, a court of appeals ruled Sunbeam could not set prices for goods which were entering into interstate commerce from Pennsylvania at prices lower than those prevailing in Pennsylvania. The second case resulted in a court decree that the nonsigner clause of a state's fair trade law could not bind nonsigning dealers engaged in goods moving in interstate commerce. Through these decisions, mail order houses in non-fair-trade states were allowed to ship goods into fair trade states at prices less than those mandated by those states. Eli Lilly brought suit under the Louisiana fair trade law and obtained an injunction against Schwegmann Brothers. Schwegmann appealed on the grounds that the nonsigner clauses of both the Louisiana law and the McGuire Act were unconstitutional. He lost his case in the court of appeals and was twice denied a hearing by the U.S. Supreme Court.

The Supreme Court subsequently refused to review cases involving the New York and New Jersey laws which had been upheld in lower court decisions. Then in the McKesson and Robbins case of 1956, the Court ruled, in keeping with the Colgate doctrine, that a manufacturer had the privilege of selecting his customers and could engage in resale price maintenance contracts as long as they were in strict conformity with the standards of the McGuire Act. Therefore, fair trade seemed to be securely entrenched by the mid-1950s.

Two decisions in 1957 involving the Masters Mail Order Company quickly reversed this situation. Masters was housed in New York, a state having a fair trade law with the nonsigner provision. To circumvent this law, Masters set up a subsidiary in Washington, D.C., an area having no fair trade law. Thereafter, he advertised goods in the New York store at less than the fair trade prices. Customers could order from the New York store, but the merchandise would be shipped from the Washington store, which carried, lower prices.

General Electric, some of whose items were handled by Masters, objected to this scheme and obtained a court injunction against Masters' practice. Masters won a reversal upon appeal, and the Supreme Court refused General Electric's request for a hearing.[10]

In the second case, it was ruled that advertisements made in fair trade states or reduced prices available in non-fair-trade states or areas were not subject to the jurisdiction of state fair laws.[11] Therefore, by the end of 1957, discount and mail order houses having stores in non-fair trade states could advertise and sell goods below the prices established for those goods in fair trade states.

Several manufacturers of electrical appliances and expensive consumer goods abandoned fair trade in the late 1950s. Such manufacturers included General Electric; Sunbeam, McGraw, Inc.; the Royal McBee Corporation, Schick, Inc.; Westinghouse; and Eastman Kodak.[12] In addition to the aforementioned adverse court decisions, there were several reasons for this flight from fair trade. First, enforcement of fair trade pricing was very expensive in that it entailed continuously large appropriations for lawyers, accountants, and other persons and instruments of enforcement. Further, any necessary court action was usually very slow. In addition, a confused legal situation over enforcement of fair trade laws resulted from the existence of the two federal laws on fair trade, the many divergent state laws, and a myriad of inconsistent court decisions rendered in individual cases.[13]

Perhaps the most important reason for the decline of fair trade was the new type of retailing, "*minimum service merchandising*," which began after World War II. Briefly, this involved retailing innovations, such as large volume, high rate of turnover, minimum profits per unit of stock, and a minimum of extra services, such as home delivery and credit availability, normally given to customers by small retailers. The emphasis was on getting the goods to the customers as quickly and as cheaply as possible.

Despite fair trade's declining position in the late 1950s, its proponents did not concede defeat. Instead, they lobbied for a new federal fair trade law which would allow manufacturers engaged in interstate commerce to set prices for their goods, regardless of whether or not a state within which they sold had a fair trade law. Several bills were introduced in Congress, most notably the Oren-Harris Fair Trade Bill of 1959 and the Quality Stabilization Bill of 1962, all of which failed.[14]

Fair trade also suffered some significant setbacks in the courts during the early 1960s. The two most notable cases were the Parke Davis case and the Simpson (Union Oil) cases.[15] Both cases involved refusals to sell, which the Supreme Court ruled went beyond the doctrine relative to that practice established in the Colgate case.

Simply looking at the number of states which began, in one way or another, to abandon fair trade is another way of observing its decline. Mention was made earlier of the large number of states adopting fair trade from 1931-1937. However, by 1953 a decline was under way. State laws were weakened or invalidated by state courts and legislatures. From the early 1950s to 1970, the number of states having fully operative fair trade laws fell to twenty-one; by 1973, to sixteen; and by 1975, to only eleven. In fact, four state legislatures repealed their respective laws in 1975 alone.

Finally, in the summer of 1975, a bill to repeal both the Miller-Tydings Act and the McGuire Act, the federal statutes making the state fair trade laws effective, was introduced in the U.S. Senate, where it was passed unanimously. Subsequently, identical legislation was passed by the U.S. House of Representatives by a 380-11 count. Hence, the remaining state fair trade laws were reduced to where they had been prior to 1937, that is, to laws applicable strictly to intrastate commerce.

The Louisiana Fair Trade Law

The Louisiana Fair Trade Act was passed in June 1936.[16] As worded in the introductory title, this was:

> "An Act to protect trade-mark owners, distributors, and the public against injuries, and uneconomic practices in the distribution of articles of standard quality under a distinguished trade-mark, brand, or name."

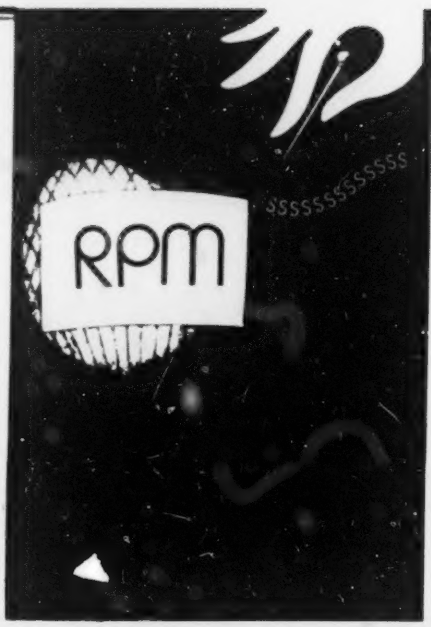
The laws of sixteen other states had the introductory title.

Section I of the act legalized RPM contracts which apply to commodities that, besides being identified by trade-mark, brand, or name, are in fair and open competition with commodities of the same general class produced by others. Provisions of such contracts specifically identified as legal were, (1) those prohibiting the buyer of such goods from reselling except at the price stipulated by the vendor, and (2) those allowing the producer or vendee to require that the buyer agree not to resell except at the price stipulated by the producer or vendee.

In these provisions, the Louisiana Fair Trade Act emulated the California fair trade law. Although all states did basically the same, some did employ somewhat different stipulations. For example, some state statutes referred to contracts involving goods identified by trade-mark, brand, or name, that were in "*free and open competition*" (as opposed to "*fair and open competition*") with goods of the same general class produced by others. Also, some state statutes prohibited resales at "*less than the minimum price stipulated*," rather than the "*less than the price stipulated*" standard of the California law. This, then, involves a difference between the exact price stipulated, or a minimum price stipulated.[17]

Within its first section, the Louisiana statute also emulated the California law in allowing for exceptions to the resale price maintenance contracts to permit close-out sales, sales of damaged or deteriorated goods, and court-ordered sales. Likewise, in its third section, the law echoed the California statute in disallowing any contracts or agreements between producers or between wholesaler or between retailers relative to sale or resale prices. Such agreements between such rivals on the same horizontal plane constitute price fixing arrangements which are illegal under federal antitrust law.

The heart of the Louisiana Fair Trade Act, as with other such acts, was the nonsigner clause, which was contained in Section 2 of the act. This section declared that it was unfair competition to willfully and knowingly advertise, offer for sale, or sell any good for a price below that stipulated in a RPM agreement, whether the person doing the advertising, offering for sale, or actual sale was a party to such contracts or not.



John Schwegmann Jr. was the owner of a large chain of retail supermarkets in the Greater New Orleans area, an enterprise which originated in 1946. Through his operation, Schwegmann introduced to New Orleans a new type of retail distribution which has subsequently been labeled "*minimum service merchandising*." The chief characteristics of this system of merchandising are, (1) self-service; (2) cash-and-carry by the customers; (3) no credit department; (4) no delivery service; (5) no counter service, except for meat; (6) the location of the store in a low-rent district; (7) volume purchases by the store owners; (8) rapid turnover of merchandise; (9) full utilization of discounts; (10) careful inventory control; and (11) management by the owners themselves.[19]

Clearly, the emphasis was on reducing the cost of operation. All unnecessary services were eliminated. Shwegmann primarily relied on large discounts. He implemented such a policy from the start by applying a low, uniform mark-up directly related to the cost of merchandise. He soon expanded the partnership and the number of stores to some eleven supermarkets.

Schwegmann in Court

Schwegmann's main success against fair trade came through the courts. Mention has already been made of Schwegmann's victory in the Calvert liquor case. This case had originated when the Calvert and Seagram corporations brought proceedings against Schwegmann Brothers to enjoin them from selling the distillers' trade marked whiskeys for less than the fixed prices they had established through fair trade contracts. The suits were based on the Louisiana Fair Trade Law, specifically Section 2, since John Schwegmann had not signed a RPM contract with either of the concerns involved.

The U.S. District Court hearing the case noted that the transactions involved were exempt from the Sherman Act by virtue of the Miller-Tydings Act and, therefore, granted injunctions in favor of the petitioning corporations. Schwegmann appealed on the ground that the act exempted only contractual price fixing from the Sherman Act, and not compulsory price fixing. Nevertheless, the U.S. Court of Appeals affirmed the decision and refused a hearing.

Schwegmann then appealed to the U.S. Supreme Court, which agreed to hear it. Subsequently the court ruled in his favor by holding that the enforcement of a price agreement against a nonsigner violated the Sherman Act. It held the Miller-Tydings Act exempted thereform only voluntary or contractual price arrangements.

As indicated earlier, the fair trade proponents quickly nullified this decision by pushing the McGuire-Keough Act through Congress. This law made Schwegmann immediately vulnerable to drug and other manufacturers whose products he was selling at less than their stipulated prices, for as we have seen, it made RPM contracts binding on all retailers, signers and nonsigners alike, in states having fair trade laws.

Despite the passage of the McGuire Act, Schwegmann continued to sell several products at below stipulated prices. Finally, Eli Lilly and Company obtained a court order forcing Schwegmann to raise his prices on Lilly products on the ground that Schwegmann was in violation of the nonsigner clause of the Louisiana Fair Trade Law. Other manufacturers followed suit.

In the Lilly case, the United States District Court ruled against Schwegmann, who contended that the Louisiana Fair Trade Law and the

McGuire Act were unconstitutional because they constituted unlawful delegation of legislative authority to private persons, as well as a denial of due process of his right to dispose of his products as he saw fit. The unlawful delegation of legislative authority referred to the fixing to resale prices by private persons, i.e. the manufacturers.

Schwegmann appealed unsuccessfully to the U.S. Court of Appeals. Next, he appealed to the United States Supreme Court but was denied a hearing. He tried a second time but again failed to get a hearing. By then, he was under approximately 100 court orders to raise prices on products of various manufacturers.

Dr. Tichenor Case

Being frustrated in the federal courts, Schwegmann shifted his efforts to the Louisiana courts. His objective was to test the constitutionality of Louisiana's fair trade law. In planning this, however, he fully realized that the Louisiana Supreme Court had upheld the constitutionality of this law by a 7-0 vote in the *Pepsodent v. Krauss* case.[20]

To get a case in the state courts, Schwegmann had to be sued by a Louisiana-based firm. Realizing this, he goaded the Dr. G. H. Tichenor Antiseptic Company into filing suit against him by advertising Tichenor's antiseptic at less than their fair trade prices. Dr. Tichenor's antiseptic had been fair-traded for about fifteen years. Almost immediately Schwegmann was threatened with legal action by a New Orleans law firm if he did not refrain from advertising and selling the antiseptic at such low prices. He immediately informed the law firm that he refused to overcharge his customers unless forced to do so by court injunction. Such as injunction was soon forthcoming. Following is a list of Tichenor's fair trade prices as compared to the prices at which Schwegmann was selling them.[21]

Bottle Size	Fair Trade Price	Minimum Price	Schwegmann Price
Small	$.30	$.25	$.22
Medium	.60	.49	.43
8 oz.	.89	.89	.62

Schwegmann lost the case in both lower and intermediate courts because the judges felt that they had to follow the 1942 decision of the Louisiana Supreme Court. Schwegmann appealed to the Louisiana Supreme Court.[22]

Although the case was initially instituted in District Court in December, 1953, it was not finally resolved by the Louisiana Supreme Court until June 29, 1956 when the Court decided in favor of Schwegmann. The Court unanimously reversed its 1942 decision on the Louisiana fair trade law holding that (1) indeed, the power to regulate private business by the use of price fixing was a legislative function to be used only in special circumstances, such as when the measure is seen to have a reasonable relation to the public welfare and is neither arbitrary nor discriminatory; and (2) that the nonsigner clause of the Louisiana fair trade law was an unconstitutional delegation of the legislative powers of price fixing to private persons in violation of Article III, Section I, of the Louisiana Constitution. These points had been raised by Schwegmann. The Tichenor Company petitioned for a rehearing of the case but was denied this on September 28, 1956.[23]

John Schwegmann Jr. had, therefore, accomplished his purpose. He had taken fair trade into the Louisiana courts and had succeeded in defeating it. Being well pleased with the Tichenor decision, he proclaimed June 29, 1956, as Louisiana's "**D-day**," or day of liberation for consumers from fair trade price fixing.[24] He was then able to cut many more prices on various products, no doubt, to the delight of consumers.

ENDNOTES

[1] *Dr. Miles Medical Company v. John D. Park and Sons Company*, **220 U.S. 373** (1911).

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[3] *United States v. Colgate and Company*, **250 U.S. 300** (1919).

[4] *United States vs. General Electric Company*, **272 U.S. 476** (1926).

[5] *Old Dearborn Distributing Company v. Seagram Distillers Corporation*, **299 U.S. 183** (1936).

[6] *United States v. Univis Lens Company*, **316 U.S. 241** (1942); *United States v. Bausch and Lomb Optical Company*, **321 U.S. 707** (1944); *Eastman Kodak Company v. Federal Trade Commission*, **330 U.S. 828** (1947).

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[8] *Schwegmann Brothers v. Calvert Distillers Corporation*, **341 U.S. 384** (1951).

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[10] *General Electric Company v. Masters Mail Order Company*, **244 Fed. 2d 681** (1957); Marshall C. Howard, **Legal Aspects of Marketing** (New York: McGraw-Hill Book Co., 1964), p. 41; Reuben E. Slesinger and Asher Issacs, **Business, Government, and Public Policy** 2d ed. (Princeton, N. J.: D. Van Nostrand Co., Inc., 1968), p. 183; Elmer E. Smead, **Governmental Promotion and Regulation of Business** (New York: Appleton-Century-Crofts, 1969), p. 115; and Clair Wilcox, **Public Policies Toward Business** 3rd ed. (Homewood, Illinois: Richard D. Irwin, Inc. 1966), p. 713.

[11] *Bissell Carpet Sweeper Co. v. Masters Mail Order Co. of Washington, D.C., Inc.*, **240 Fed. 2d 684** (1957).

[12] *"Fair Trade Slips,"* **New Orleans States Item** January 5, 1957, p. 6; *"General Electric Abondoning Fair Trade on March 1, Is Report,"* **The Times** (New York), February 25, 1958, p. 1; *"Royal McBee, Schick, Dropping 'Fair Trade': Other Firms Stand Pat,"* **Wall Street Journal**, March 2, 1958, p. 5.

[13] David Morgenbesser, *"It's a Buyers' Market,"* **Journal of Commerce** (August 14, 1956): 20.

[14] Slesinger and Issacs, p. 184; Smead, p. 116.

[15] *United States v. Parke, Davis and Co.*, **362 U.S. 29** (1960); and *Simpson v. Union Oil Co.*, **377 U.S. 13** (1964).

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[17] Federal Trade Commission, **Report on Resale Price Maintenance** (Washington, D.C., Government Printing Office, 1945).

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[22] *Dr. G. H. Tichenor Antiseptic Company v. Schwegmann Brothers Giant Super Markets*, Supreme Court of Louisiana No. 42883, Original Brief on Behalf of Schwegmann Brothers, et al., defendants-appellants, p. 46.

[23] *Tichenor v. Schwegmann*, **La. Reports**, Vol. 231 pp. 74-75 (1957).

[24] *"Louisiana's 'D' Day,"* **Times-Picayune**, July 9, 1956, p. 29; *"We Have Been Freed,"* **Times-Picayune**, July 23, 1956, p. 17; and Schwegmann editorial, **Times-Picayune**, July 30, 1956, p. 19.

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LOUISIANA BULLETIN

State Unemployment Remains Up

Louisiana's total unemployment rate remained at more than 12 percent in March, despite an increase of 228,800 in employment. Workers in nonagricultural fields, at 1,588,600, remained unchanged from the February level, as manufacturing employment continued to fall, according to the *State Department of Labor*.

Unemployment rates for the seven labor market areas showed slight declines in Alexandria, Lake Charles, Monroe, and Shreveport; and similar increases in Lafayette and New Orleans, with Baton Rouge continuing unchanged. Unemployment in the rural parishes remained extremely high, with some 14 parishes experiencing rates higher than 18 percent. Oak Grove in West Carroll Parish had the highest level of unemployment in the state: 29.7 percent.

Year to Be Slow Growth Period

Having virtually bypassed the 1973-75 national recession and the 1980 economic squall, Louisiana is expected to view 1983 as no more than a slow period of growth, according to **William J. Kahley** of the Federal Reserve Bank of Atlanta's *Economic Review*. Louisiana's oil and gas industries, formerly rapid generators of state economic growth, have been engulfed by a spreading worldwide oil and gas surplus, Kahley points out, adding, "forecasts of developments in the oil and gas industries for 1983 vary widely, but the consensus seems to point to modest recovery around midyear."

The recent energy drop is reflected in Louisiana's labor force and employment statistics, according to the report, which is based on November 1982 statistics. The state's seasonally adjusted November employment rate of 11.3 percent exceeded the nation's rate of 10.7 percent, but at the same time the state's civilian labor force increased slightly from November 1981 to November 1982, with 41,000 fewer persons employed than a year earlier. Of the seven standard metropolitan statistical areas in Louisiana, Lake Charles, at 14.2 percent, had the highest unemployment rate, while Lafayette's 6.4-percent unemployment rate was the lowest.

Despite the adjusted employment rate's high of 11.3 percent, Louisiana's total personal income rose to $43.7 billion from 1981 to the quarter ending last June, Kahley added. This 8.2-percent increase is in contrast to the 16-percent increase experienced the previous year, but was still 1 percent more than the national average. According to the report, the 8.2-percent growth outdistanced every Southeastern state except Florida. Much of the credit for this increase is given to the oil-fired economic boom of 1979-81. As the petro-chemical fire cooled down in late 1981 and nearly went cold in the last half of 1982, however, several economic indicators took a plunge.

The area of retail sales, although it showed some improvement by year-end, has trailed the nation's rebound by 4.1 percent. A 1.8-percent decline in retail sales for the first eleven months of 1982 was some indication that the energy-fed economy was losing much of its impact. By contrast, retail sales increased by 2.6 percent for the nation over the same period. In November, national retail sales averaged a 7.6-percent increase compared to 1982, while Louisiana's retail sales rose only 3.5 percent in the same period.

State tourism also is not expected to see much improvement until 1984 when New Orleans plays host to the World Exposition. The industry suffered a bad year in 1982, as even the less-expensive intrastate tourism declined. Visitor days at U.S. forest and recreation sites in the state, for example, fell 14 percent, while attendance in the state parks was down 11.1 percent from 1981. Depending on the economic recovery, 1983 may see an improvement in the industry, but, the year could also see a slowing trend, as conventioneers and tourists postpone visits until the 1984 World's Fair.

Capital Development Project Set

After a long period of decline and a slow period of tentative redevelopment, project Downtown Baton Rouge is on the drawing boards again. Beginning in the 1960's, various attempts have been made to plan a new and more vibrant downtown.

According to *Discover*, the publication of the Arts and Humanities Council of Baton Rouge, the banking community has been one of the leaders in the area's redevelopment and has plans for future construction. Redevelopment plans include a major renovation of old warehouses in the Catfish Town area south of the Riverside Centroplex governmental center and development of the Mississippi River levee that includes a plaza and a naval museum. Other city interests are redeveloping shops and offices throughout the downtown area.

Most importantly, however, the city is funding a comprehensive study for the redevelopment effort called the *Baton Rouge Business District Economic Development Study*, the report stated. The redevelopment study will be supported by both technical and citizens' advisory committees, and a project task force acting as a board of directors for Charles Caplinger Planners, Inc., which will oversee the project. □

New River Service

Schenkers International has announced the completion date of their new office and 40,000-square-foot terminal at Kenner. The terminal will be operational in June, and will be one of the most modern facilities in the area. It will provide complete export and import services, specializing primarily in export packing. A spur track for rail services is expected to be installed later this year.

Cable Venture

Domestidyne, a joint venture between Microdyne and Domesticom corporations, has agreed in principle to acquire all of the hotel SMATV systems operated by American Medical Building Corporations, American Network Division, as well as all existing American Network contracts to install such systems. This will add more than 20,000 hotels to Domestidyne's hotel division, and puts the New Orleans-based corporation in more than fifty major U.S. cities. The service will feature Showtime, ESPN, USA, CNN, and Nickelodeon, in addition to capabilities for teleconferencing, and data and text transmission, including electronic mail and newspapers.

Cities Service Goes to Southland

The *Southland Corporation*, operator and franchisor of *7-Eleven* stores, and *Occidental Petroleum Corporation* have agreed in principle for Southland to acquire from Occidental the refining, marketing and transportation businesses of Cities Service Company. Southland is the world's largest operator and franchisor of convenience stores, with 7,257 7-Eleven stores in the United States and Canada. □

NATIONAL NEWS

(continued from page 16)

in the same state, and 9.7 percent to a different state. These figures do not include people who had returned to their original residences by 1980 or had moved more than once during the period. States with relatively high percentages of 1980 residents who were living in another state in 1975 were Nevada (31.5), Alaska (29.1), Wyoming (28.3), and Arizona (23.9). The lowest percentage was in New York (3.8).

FASB Proposal Poses Threat

The Financial Accounting Standards Board's proposal, *Preliminary Views: Employers' Accounting for Pensions and Other Post Retirement Benefits*, could not only significantly affect a company's financial statements but could also have broad social implications for the country as a whole. According to **Peter R. Scanlon,** chairman of the New York accounting and consulting firm of Coopers & Lybrand, companies would have to record unfunded pension benefits as a liability on their balance sheets—as well as an intangible asset, which will make it more difficult to measure the actual financial health of a company.

The proposal also calls for companies to use only one actuarial method, although several are currently acceptable for both accounting and ERISA purposes, and it would require a company to accrue any material costs for a retiree's health care and life insurance benefits during the employee's years of service with the company. "I am concerned," Scanlon said, "that the proposal represents a general trend by the Board toward an unwarranted emphasis on the balance sheet and a movement away from the income statement, which could result in severe fluctuations in annual financial statements." □

COLLEGE HIGHLIGHTS

(continued from page 17)

sion within the last few years."

LSU graduates also benefit from the relationship between the College of Business Administration and the banking industry. Bankers from across the nation attend various continuing education programs and seminars hosted on the LSU campus throughout the year. This exposure of faculty and student body to the banking community has helped to build the image of the LSU banking program with the banking industry, according to Staats.

The professor also reported that salaries offered to LSU graduates have increased sharply in recent years. Master degree graduates command starting salaries of up to $32,000, and undergraduate degree students are receiving salaries of up to $22,500.

Latin American Energy Exchange

Louisiana State University has entered into a $40,000 contract with the Louisiana Department of Natural Resources to establish a Latin American Energy Exchange Program, with **Dr. Rodolfo J. Aguilar,** director of the Center for Latin American Affairs, as principal investigator, and **Dr. Emma Brossard,** director of Policy Analysis and Planning, Center for Energy Studies, as co-principal investigator. A working dialog in the area of mutual energy problems will be established between the people of Louisiana and leading energy centers in Latin America. This will be accomplished through the exchange of scholars in diverse energy-related areas, Inter-American conferences to analyze the effects of foreign petrochemical decisions, and by assisting in the establishment of new energy centers in Latin American countries, thus permitting direct interaction with hemispheric leaders. □

RESEARCH NOTES

Study Predicts Impact of Fair On Louisiana Economic Scene

Nearly $530 million will be spent in staging the 1984 World's Fair and in fair-induced expenditures by visitors, according to estimates in a study conducted by **Dr. A. M. M. Jamal,** research economist for the College Division of Research. Jamal's study, partially based on statistical information developed by Harrison and Price Company for a report to the Louisiana World Expo, Inc., also predicts the fair should produce about $350 million in new earnings for Louisiana workers; and it will generate an additional $82.7 million in Louisiana taxes.

According to Harrison and Price estimates, Expo Corporation, exhibitors, and concessionaires will invest some $122 million in capital expenditures and about $181 million for total operating expenditures. They further predicted $227 million in off-site visitor expenditures. The addition of the projected amount of fair-related tourism spending to these amounts brings the total that can be expected to effect the Louisiana economy to more than $521 million.

Jamal shows in his breakdown that new earnings by proprietors and workers is being predicted to reach some $350 million and produce more than 27,600 man-years of employment. Economic sectors, in terms of estimated total earnings and man-years of employment, covered by the study, include agriculture, forestry, and fisheries, $4 million, 311; mining, $1.4 million, 49; construction, $49.2 million, 2,322; manufacturing, $22.9 million, 1,148; transportation, communication, and public utilities, $27.1 million, 1,163; wholesale trade, $17.5 million, 785; retail trade, $99 million, 9,809; finance, insurance, and real estate, $11.9 million, 643; and services, $116 million, 11,410.

Additional tax revenues predicted by Jamal to be generated by the fair include from on-site visitor spending, $12.165 million; from off-site visitor spending, $7.070 million; hotel taxes, $5.100 million; amusement taxes, $5.600 million, state income taxes, $6.987 million; and from all other direct and indirect sales taxes, $45.683 million; for a total $82.683.

Dr. A. M. M. Jamal is a research economist for the LSU Division of Research in the College of Business Administration at Baton Rouge. He currently is studying the impact of coal exports through Louisiana and is involved in the development of the Louisiana Occupational Information System being sponsored by the State Department of Labor.

□

ECONOMIC IMPACT OF THE WORLD'S FAIR

Estimate of the Expenditures for Staging the Fair and Fair-Induced Expenditures by Visitors

	Thousands of 1984 Dollars
1. Total Capital Expenditures (by Expo Corporation, Exhibitors, and Concessionaires)	$121,900
2. Total Operating Expenditures (by Expo Corporations, Exhibitors, and Concessionaires)	180,000
3. Total Expenditure by Visitors at the Fair (11 million visitors each spending $15.80)	173,800
4. Total Off-Site Visitor Expenditures, in addition to usual tourist expenditures	226,710
TOTAL New Outlay Impacting the Economy (1+2+4)	529,700
TOTAL Capital and General Operating Expenditures (1 + part of 2)	218,150

*Source: Report by Harrison and Price Company for the Louisiana World Expo, Inc., November, 1980

REVENUE PROJECTIONS

Tax Revenue Generated (Thousands of 1984 dollars)

Source of Revenue	Amount
Sales Tax from On-Site* Visitor Spending	$12,165
Off-Site Visitor Spending*	7,070
Hotel Tax*	5,100
Amusement Tax*	5,600
State Income Tax	6,987
All Other Direct and Indirect Sales Tax	45,761
TOTALS	$82,683

*Source: Report by Harrison and Price Company for the Louisiana World Expo, Inc., November, 1980

IN APPRECIATION

The **Louisiana Business Review**, a quarterly publication of the Division of Research in the College of Business Administration at Louisiana State University, is dedicated to providing worthwhile and timely information on local, state and national economic developments of interest to members of the Louisiana business and government communities. This objective is being achieved by presenting high quality, readable articles written by knowledgeable representatives from business, government and academia. The Division would like to express its sincere appreciation to the following companies whose valuable contributions have made this publication possible.

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